

Public Utilities

FORTNIGHTLY



Volume XLIII No. 10

May 12, 1949

IS THERE STILL A NEED FOR UTILITY HOLDING COMPANIES?

By John P. Callahan

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The Community Side of Public Relations Problems

By Betty Lee Gough

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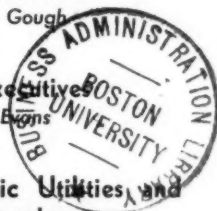
Tomorrow's Executives

By Walter E. Egan

« »

Fair Wages in Public Utilities and Private Enterprises

By J. O. Hopwood



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Public Utilities

FORTNIGHTLY

VOLUME XLIII

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NUMBER 10



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 stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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Pearl Street Station in New York City set the pattern for modern central stations.

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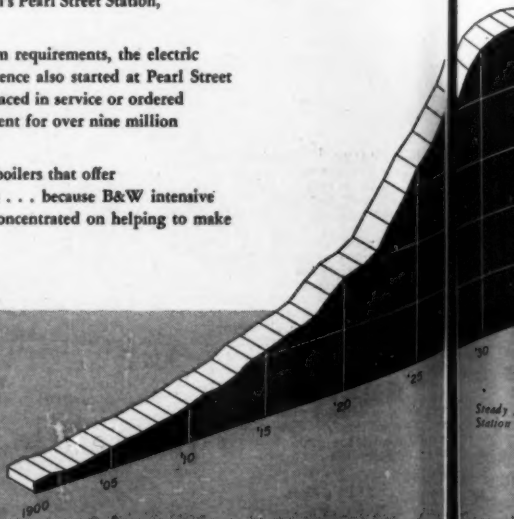
Most of America's new electric power — over 75 percent of it — is being generated by steam-operated equipment . . . a practice started in 1882 at Mr. Edison's Pearl Street Station, grandfather of modern central stations.

And in selecting boilers for its latest increased steam requirements, the electric power industry is continuing an industry-old preference also started at Pearl Street — B&W steam. New B&W central station boilers placed in service or ordered since V-J Day have a combined steam capacity sufficient for over nine million kilowatts of generating capacity.

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Steam for the 540-ton Pearl Street Station was supplied by four 216 B&W boilers like this one.

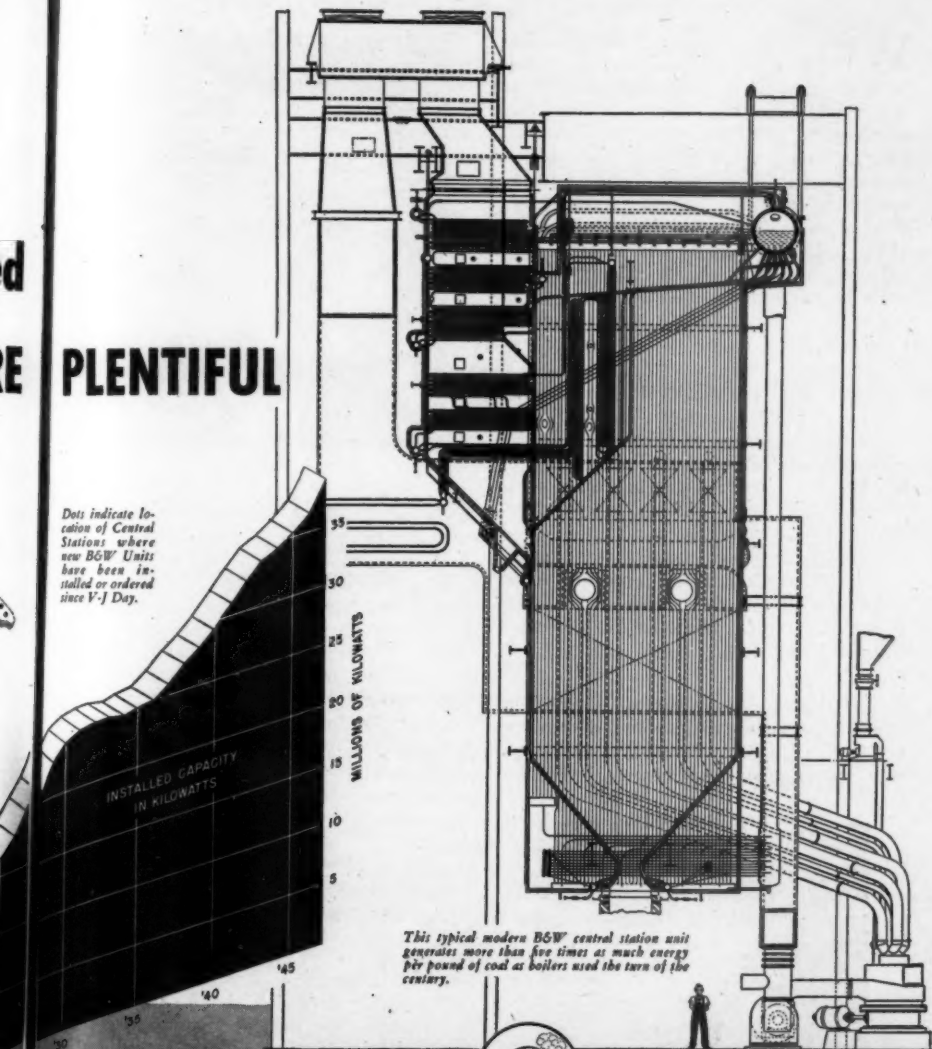


Dots indicate location of Stations; new B&W have been installed since V-J.

Steady Station

PLENTIFUL

Dots indicate location of Central Stations where new B&W Units have been installed or ordered since V-J Day.



This typical modern B&W central station unit generates more than five times as much energy per pound of coal as boilers used the turn of the century.

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Pages with the Editors

WHEN the Congress passed the Holding Company Act in 1935, most of the discussion about the controversial "dissolution clause" (§11) had to do with activities and functions of holding companies which were regarded as unnecessary if not actually harmful to the public interest. There was relatively little attention given to those functions of the holding company which might not only be regarded as beneficial but which must be performed in some way or another for the surviving operating companies.

CERTAINLY the Federal government itself has since found out the need for centralized advisory services. The Rural Electrification Administration, from its headquarters in Washington, D. C., performs many such valuable services for its rural cooperative borrowers — services which the local cooperatives would find it difficult to command on their own responsibility if they were cut adrift from the guiding influence of the centralized Federal bureaus.

THE Reclamation Bureau is another example of a central agency which makes available valuable information and suggestions to rural agricultural interests,



WALTER EVANS

using the bureau's irrigation and power services.

THE question therefore arises whether some substitute devices can be used for the benefit of privately owned and operated electric utility companies "orphaned" by the Holding Company Act. More specifically, the question arises whether the holding company itself in a more limited but useful form, as compared with the earlier and now illegal prototypes, is worthy of revival.

JOHN P. CALLAHAN, utility news analyst on the staff of *The New York Times*, has examined this problem carefully. In the leading article in this issue, MR. CALLAHAN gives us some thought-provoking commentary on the possible need for holding company services which still exists. It may be that in this field, as in others, the mere abolition of a controversial institution will be found not in itself a complete solution of an original problem.

* * * *

IT has been said that public relations like the virtue of charity begins at home. Certainly public utility companies have found their own employees



JOHN P. CALLAHAN

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and their own customers the best place for starting any program aimed at better public understanding. BETTY LEE GOUGH of New Orleans, writer of business articles, has given us a "round-up" story on the community building phases of public relations activities. Her article, entitled "The Community Side of Public Relations Problems," is found beginning page 605 of this issue. It is a round-up story on a most timely topic.

* * * *

SINCE we seem to be living in the "Era of the Engineer" as far as utility corporation top executives and industrial leadership are concerned, it is a fair question to ask whether the schools of today are providing the necessary training for the executives of tomorrow. WALTER EVANS, vice president of Westinghouse Electric Corporation, has made an analysis of the demands made at the top level of management upon executives of various operating companies in the United States.

MR. EVANS, whose article entitled "Tomorrow's Executives" begins on page 611, is a native of Columbus, Ohio. He studied electrical engineering at the University of Illinois where his courses were interrupted by a tour of duty with the U. S. Navy during World War I. After completing his formal training at the University of Chicago, MR. EVANS entered the radio industry with Station



J. O. HOPWOOD

MAY 12, 1949

KYW in Chicago in 1921. He later supervised the first radiotelephone installation on an American merchant ship while serving as a wireless operator for United Fruit Company. In 1932 Mr. EVANS, by that time general manager of Station KYW, was placed in charge of all Westinghouse stations. Later his duties were expanded to include all radio manufacturing activities of Westinghouse, as well as broadcasting and sales of radio equipment. He became a director of Westinghouse Radio Stations, Inc., in 1936 and president of that subsidiary in 1947. He has been vice president of the parent Westinghouse Electric Corporation since April, 1942. During World War II he was chairman of the international broadcasting committee of the Defense Communications Board.

* * * *

Is human labor a commodity to be bought and sold on the basis of supply and demand? Or is the labor market bargaining concept a barrier to good employee relations? J. O. HOPWOOD, director of personnel administration of the Philadelphia Electric Company, has given us the benefit of both thought and experience in outlining a philosophy for a fair wage pattern in public utility employment.

MR. HOPWOOD, whose article entitled "Fair Wages in Public Utilities and Private Enterprises" begins on page 620, is a native of Philadelphia who studied at Cornell and graduated from the University of Pennsylvania (BS, '04) and Yale University (MS, '07), majoring in the biological sciences. During World War I he served with the American Fleet Corporation and later joined the Philadelphia Electric Company, where for thirty years he has been engaged in the specialized supervision of personnel administration.

THE next number of this magazine will be out May 26th.

The Editors

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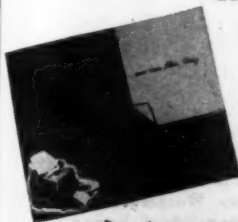
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Coming IN THE NEXT ISSUE



A MIDDLE WAY FOR THE NORTHWEST

Following President Truman's recent special message a flurry of bills to set up a Columbia Valley Administration has been introduced in Congress. Although final enactment of any such legislation is not generally expected at this session, here is a plea by an influential member of the House Appropriations Committee, Representative Horan, Republican of Washington, for a compromise—a compromise between Federal and local domination of control for public power and other river developments in the Columbia basin.

POWER TO THE EMPIRE STATE

With the renewed agitation for the St. Lawrence power development have come reports of a power shortage in the New York state area. What is the truth of these reports and what are the existing electric utility companies in that region doing about them? The author, J. Louis Donnelly of the New York Journal of Commerce, has made a careful survey of the situation and finds that the Empire state utilities are very much "on the ball" with respect to public responsibilities and planning.

SUPERVISORY CONFERENCES

Taking a survey of employees' sentiment on managerial policies is an important step in utility employee relations. But it is only a step even after the results are known and analyzed. Correcting points of friction and misunderstanding then calls for a program of planning which O. H. Day of Kansas City Power & Light Company describes on the basis of actual operation.

ODDS AND ENDS IN UTILITY NEWS

Along the lighter side, there are many news items about things which happen in the course of a day's work in the public utility business which bring a laugh to those who hear about them, if not to those who experience them. Harold Helfer has made an amusing collection of such items.



Also . . . *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*



REMINDER —to Utility Executives

IRVING Trust's Public Utilities Department has been actively helping utilities formulate and carry out constructive financial programs geared to each company's particular needs.

This special department is staffed with men whose practical experience in the utilities field qualifies them to offer a sound, understanding, realistic approach to your problems.

TOM P. WALKER—*Vice President in charge*

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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

BRUCE R. PRENTICE
*Chemical engineer, General
Electric Company.*

"We have no sensible basis for predicting when or if atomic power is to become commercially important."

JOHN W. BRICKER
U. S. Senator from Ohio.

"Industry right now is doing a good job of meeting its need for expansion. I see no necessity for what may prove a duplication of effort."

E. F. MANSURE
*President, Illinois Manufacturers'
Association.*

"One of the principal obstacles to continuing high consumer demand, which is necessary for mass production, is our tremendous tax burden."

JOHN R. STEELMAN
Assistant to the President.

"This nation's ability to use electricity has always been underestimated. That is the biggest difficulty we have had in the development of our power resources."

ALBEN W. BARKLEY
*Vice President of the United
States.*

"We cannot claim that we are a perfect democracy so long as there are elements in our population who do not enjoy the fruits and benefits of democracy."

ROBERT A. TAFT
U. S. Senator from Ohio.

"The fundamental cleavage [between the Republican and Democratic parties] is free government *versus* totalitarian government; liberty as *versus* arbitrary government."

SUMNER H. SLICHTER
Professor, Harvard University.

"The crucial question confronting business in 1949 is whether the growing reluctance of enterprises and individuals to spend can be halted before it produces a drop in total spending and a recession."

CHARLES E. WILSON
*President, General Electric
Company.*

"The greatest long-range benefit to both consumer and worker will result from the preservation of the proper share of the stockholder. Unless investment is encouraged, the national economy will suffer."

SUMNER T. PIKE
*Vice chairman, United States
Atomic Energy Commission.*

"Unhealthy attitudes ranging from hysteria to apathy [now exist among the public on the subject of the atom]. These attitudes can be modified and changed if we use all legitimate means of getting the facts to the people. One of the best means of disseminating the facts is through the pupils in their own homes after school."

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EDITORIAL STATEMENT
Chicago Journal of Commerce.

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JOHN W. SNYDER
Secretary of the Treasury.

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CHARLES F. BRANNAN
Secretary of Agriculture.

"Coöperative rural electrification is an integral part of our national farm program through which farmers themselves are employing the homespun brand of private enterprise to improve their living and working conditions."

CLARENCE FRANCIS
Chairman, General Foods Corporation.

"The national welfare, the national security, and the peace of the world depend on the coöperation of men who are citizens first and representatives of special groups second, working together to define a proper balance for agriculture in this country."

EDITORIAL STATEMENT
The Wall Street Journal.

"We cannot find in the dispatches from Washington much, if anything, about a mandate from the people to balance the budget by other means than soaking the rich and drawing off the lifeblood of the private enterprise system—by cutting expenditures, for instance."

M. E. COYLE
Executive vice president, General Motors Corporation.

"The effect of volume upon actual unit costs and profits is familiar to all businessmen. The only way that reasonably level prices, in terms of what the dollar will buy, can be achieved over a period is to realize a more than average profit rate in years of high volume to offset the lower than average profit rate that is the result of low volume."

FRANK McLAUGHLIN
President, Puget Sound Power & Light Company.

"The \$64 question before us today is: What assurance do the people of the Northwest have that the Federal government will live up to the responsibility which it has taken away from private enterprise to provide a power supply adequate to the needs of the region? At the moment the answer is none."

EARL BUNTING
Managing director, National Association of Manufacturers.

"In attempting to issue new equities, industry is confronted with the task of resolving the paradox presented by the administration, which on the one hand calls for expanded capital formation, but, on the other, removes incentives to invest, through heavy taxation demands, and threatens private industry as in the case of steel, with socialization programs."

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THE cost of any truck is the total amount of money you invest in it . . . as long as you own it.

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It can be far higher, for example, when you buy a truck that's too big or too small for the hauling job it has to do.

In such cases, costs go up rapidly . . . in wasted gas and oil, in repairs, in

shortened truck life, and in time lost on the job.

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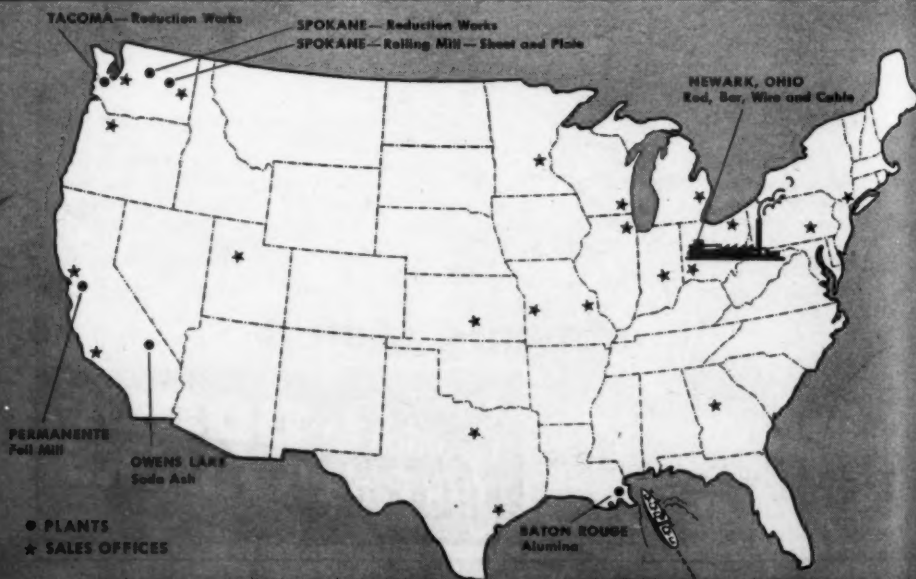
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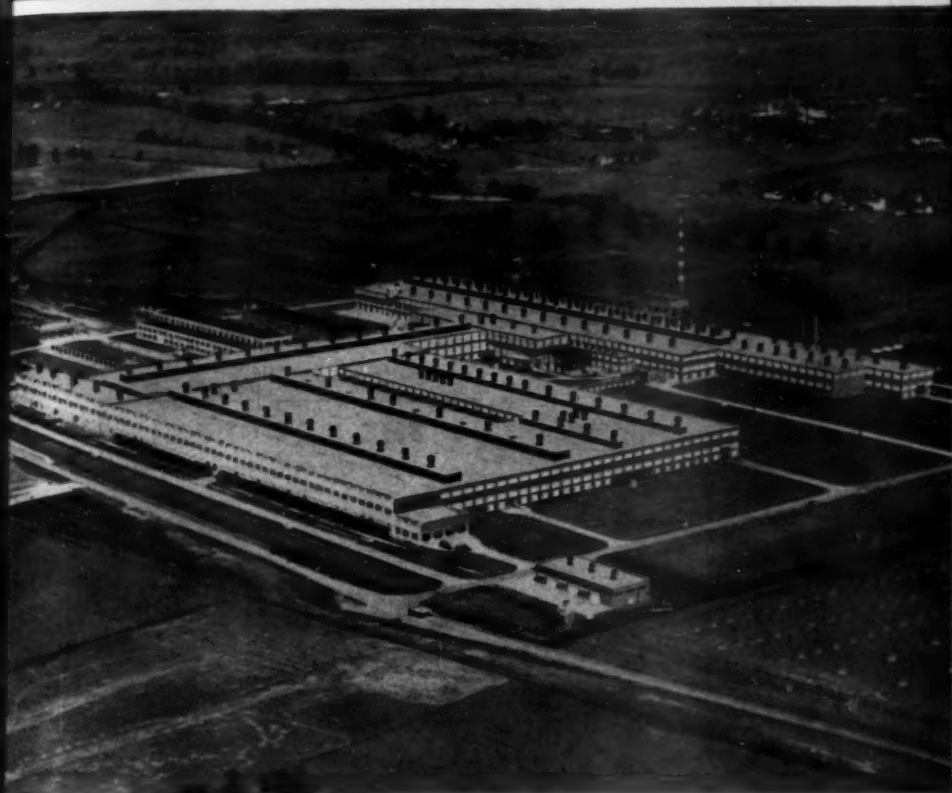
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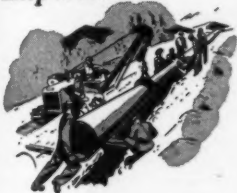
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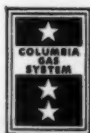
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THE COLUMBIA GAS SYSTEM

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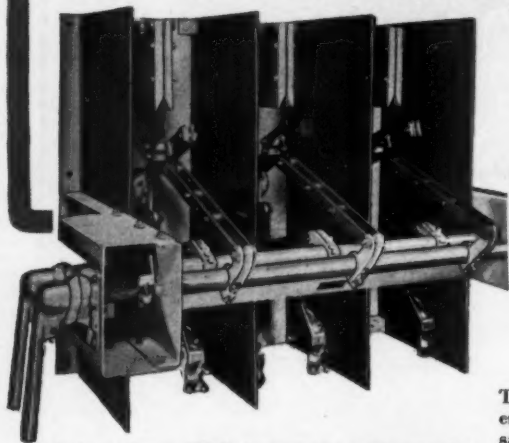
The Columbia Gas System, Inc. Columbia Engineering Corporation (the service company) The Manufacturers Light and Heat Company
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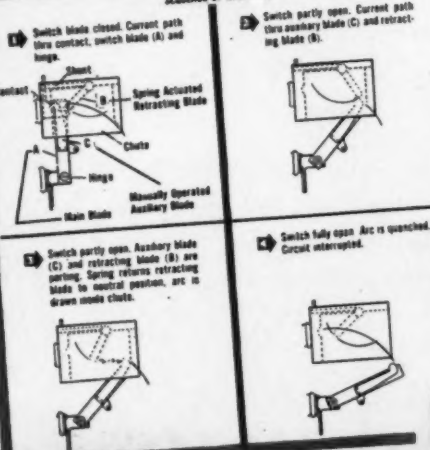
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MAY

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12	T ^A	1 Missouri Valley Electrical Association begins accounting conference, Kansas City, Mo., 1949. ☿
13	F	1 Pennsylvania Electric Association, Transmission and Distribution Committee, ends meeting, Dallas, Pa., 1949.
14	S ^a	1 American Water Works Association, Pacific Northwest Section, ends annual meeting, Bellingham, Wash., 1949.
15	S	1 American Gas Association-Pacific Coast Gas Association will hold domestic research and utilization conference, Los Angeles, Cal., May 26, 27, 1949.
16	M	1 National Fire Protection Association begins 3-day annual meeting, San Francisco, Cal., 1949.
17	T ^a	1 Kansas Telephone Association begins annual convention, Topeka, Kan., 1949. 1 Pennsylvania Gas Association begins annual convention, Wernersville, Pa., 1949.
18	W	1 Wisconsin State Telephone Association begins annual convention, Madison, Wis., 1949.
19	T ^A	1 Radio Manufacturers Association ends annual convention and parts industry trade show, Chicago, Ill., 1949. ☿
20	F	1 New Jersey Utilities Association begins one-day spring meeting, Absecon, N. J., 1949. 1 Pennsylvania Electric Assn., Meter Committee, ends spring meeting, Reading, Pa., 1949.
21	S ^a	1 American Water Works Association will hold annual conference, Chicago, Ill., May 30-June 3, 1949.
22	S	1 Edison Electric Institute will hold annual meeting, Atlantic City, N. J., May 31-June 2, 1949.
23	M	1 American Gas Association begins production and chemical conference, New York, N. Y., 1949.
24	T ^a	1 National District Heating Association begins 4-day annual meeting, Swampscott, Mass., 1949.
25	W	1 New York State Telephone Association begins convention, Jamestown, N. Y., 1949. 1 Pacific Coast Electrical Association begins meeting, San Diego, Cal., 1949.

Mechanical "Bucket Brigade"

*This bucket conveyor feeds fuel to the boiler fires at Kansas City
Power & Light Company's Northeast station.*



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Public Utilities

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MAY 12, 1949

Is There Still a Need For Utility Holding Companies?

There is, declares the author, since the holding company was the vehicle by which the industry got its start and on which it depends for its growth and with which it will have to continue if it is to meet the unprecedented demand for service.

By JOHN P. CALLAHAN*

THIS article proposes to deal with the broad question, "Is there still a need for holding companies?"

In view of the legal battles that have been fought over the question during the past decade or so, no one answer, particularly that of a layman, could be accepted with finality. As a matter of fact, the question would seem to carry the inference that corporate utility malpractices, which purportedly characterized the management of a few utility systems in the twenties, may

still exist. This, despite the vigorous administration of the controversial § 11(b)(1) of the Holding Company Act by the Securities and Exchange Commission.

With that premise, let us review certain developments surrounding the subject of holding companies, from which some academic conclusions may be drawn: 1—their growth; 2—the advantages and disadvantages inherent in such structures; 3—the effect of regulation; and 4—some comments by utility executives and observers of the industry.

*For personal note, see "Pages with the Editors."

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Traced from their seedling stage, to use a phrase of the current season, the utility holding companies began in the gas industry about sixty-seven years ago with the incorporation of the United Gas & Improvement Company of Philadelphia, later the Union Contract Company. Twenty years later, it owned or controlled 34 companies in 16 states.

It is not our purpose in this article to dwell at length on development of the utility holding company; that phase of the story was covered quite thoroughly by David Cowan, writing in the June 3, 1948, issue of the FORTNIGHTLY. Suffice it here, then, to give a cursory treatment to that phase of the picture for the purpose of pointing up the reason for their formation, and to evidence the impetus that holding companies have given to the swift and efficient extension of electric power in the United States.

What would have become of the small electric plants that began to dot the countrysides in the eighties if the holding companies had not come to their rescue, is pointless conjecture. There is no better evidence of their worth than the fact that without the financial resources of the holding company, the power and light industry could not have grown to its current size. No one will, or could, deny that there were some badly mismanaged systems in the twenties where abuses wrought untold hardships on investors. It was just such debacles that brought on the broad Federal investigation of the industry twenty years ago, with resultant rules and regulations so numerous, complex, and overlapping that one might ask if the point of zealous

overregulation attendant on a bureaucracy has not been reached.

TRACING the origin of a typical large utility holding system, the Electric Bond and Share Company, we find that an investment company, the United Electric Securities Company, was formed by the Thompson-Houston Electric Company in 1890 to take over the securities of small power and light concerns which were purchasers of its electrical equipment. Later, Thompson-Houston Electric was absorbed by the General Electric Company, which formed Bond and Share. EB&S, in turn, acquired the securities of operating utilities that later became part of this vast and efficient utility holding company system. Other major utility holding companies formed fifty or more years ago included the North American Company (1890), and the American Light & Traction Company (1901). Still others were formed by engineering firms as the result of their acquisition of operating company obligations in payment for construction work, thus, in effect, forcing the engineering firms to become investment bankers, also.

Advantages and Disadvantages

REFERENCE has been made above to one major advantage of the holding company—the availability of finances to the operating company. That in itself could be pointed to as a singular justification for the existence of such enterprises. As the financial resources of operating companies became sufficient to their needs, they were able to attract additional capital for expansion through the sale of equity securities to the public. This situation

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has had the rather adverse effect through the years of minimizing the rôle of the holding company. And, while there have been instances to substantiate this condition, there also have been instances that bear out the fundamental rôle of the parent company. In the early thirties, for example, the Puget Sound Power & Light Company was on the verge of bankruptcy when its parent, Engineers Public Service Company, came to the rescue. That company performed several other similar services for its subsidiaries. To mention a few, as recalled by Allen Hastings, a former officer of Engineers, its loan of \$8,655,000 to Eastern Texas Electric Company some years ago, assumption of liability for a bond offering of another subsidiary, and heavy financing for the Gulf States Utilities Company. In that system there were examples of other services performed by the parent company, loss of which could not have been replaced at any price near comparable costs. Such services would include tax studies and policy advice based on system experience.

IN this connection, the list of benefits accruing to an affiliated company from the holding company's experience is exemplified times over. There are, for example, the advantage of centralized management, purchasing and construction services on a much lower cost basis than if contracted for outside

of the "family" by the individual operating company. The current unprecedented expansion program of the industry is a good example of the economies that can be derived from centralized construction.

To sum up the advantages, they seem to have been expressed with clarity by Matthew A. Morrison, a vice president of the H. M. Byllesby Company, when he addressed the 1930 convention of the National Electric Light Association:

1. Consolidation of several operating companies brings about an increased volume of business under one management.

2. Such consolidation enables the organization to concentrate production in large units, increase the utilization of plant, transmission and distribution capacity, and employ the services of the best administrative, financial, operating, construction, technical, purchasing, sales, publicity, advertising, and other specialists.

3. The work of these specialists brings two results: continually improved operating efficiency and increased volume of business which react upon each other to bring about improvements in service and decrease in its cost per unit.

4. Each consolidation increases the possibility for interconnection with other systems or groups, thus preventing duplication of facilities and realizing in full the advantage of quantity production which is, in general, a better product at lower cost.

5. Due to consolidation of properties, increases in earnings, economies of



Q "... the utility holding companies began in the gas industry about sixty-seven years ago with the incorporation of the United Gas & Improvement Company of Philadelphia, later the Union Contract Company. Twenty years later, it owned or controlled 34 companies in 16 states."

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operation, and diversification of risks, the financial standing of the group is so increased that capital for refunding, extensions, and improvements can be obtained at much lower cost for the group than would be possible for any individual property standing alone.

ON the score of disadvantages of the holding company principle, the industry and Wall Street, separately and together, have revealed a few. Glancing at the crazy-quilt pattern that typified some of the pyramids of the twenties, the more financially conservative members of the industry are justified in their condemnation of former colleagues whose neglect and abuse of positions of trust were responsible for the imposition of certain severe and, in the opinion of some, hampering controls by regulatory bodies.

From the viewpoint of adherents of integration, not all of the holding companies were efficiently connected. Then, too, there were the opportunities afforded those in control to reap unconscionable profits through monopolistic contracts for many of the services rendered by the parent company. To their eventual regret and shame, officials of large holding companies resisted to a point of suspicion public and regulatory agency inquiries on phases of intercompany activities.

THE revelations, or disclosures, made during the House Interstate and Foreign Commerce Committee hearings in 1935, presented to the government evidence sufficient to rouse public antipathy, to say the least, towards the industry as a whole. Standard Gas & Electric Company, for example, a \$1.2 billion investment, was controlled by \$23,000 of common stock. The committee heard that in one group

of thirteen top holding companies, five large systems were controlled through common stock whose nominal value was less than one per cent of the system's assets. Some holding companies even acquired controlling common stock interest of operating units without any capital contribution simply by writing up the operating company's assets, according to the Federal Trade Commission's investigation.

One of the most glaring examples of superstructures was the Associated Gas & Electric System which had 273 companies. The operating companies were each separated from their top holding companies by 9 holding companies; 6 other operating companies were separated by 8 companies. (Revamped after extensive reorganization hearings, Associated now is known as the General Public Utilities Corporation.)

COMMENTING on Associated, the Federal Trade Commission said it found "an extraordinary picture of the exploitation of an essential public service for which the holding company device served as a cloak." This recalls a definition of a holding company voiced by an observer of that investigation: "A legal device which could be substituted for practices that had been declared invalid."

Although the FTC said much more about Associated, including that statement that it was not an isolated instance of what it found in its investigation of holding companies, it did not give evidence of widespread existence of the practice.

The investment banking fraternity floated many securities of holding companies, and the interest in the holding

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TABLE I

TOTAL PROPERTIES AND SECURITIES SOLD OR OTHERWISE DIVESTED BY REGISTERED PUBLIC UTILITY HOLDING COMPANIES

December 1, 1935, to June 30, 1948

	Number of Companies				Assets of Companies Divested (000,000 Omitted)			
	Elec- tric	Gas	Non- Utility	Total	Elec- tric	Gas	Non- Utility	Total
<i>Divested Companies No Longer Subject to Holding Company Act</i>								
Divested by Exchange or Distribution of Securities to Security Holders	42	20	33	95	2,114	482	45	2,641
Divested by Sale of Property or Securities ³	150	106	193	449	3,384	369	578	4,331
Total	192	126	226	544	5,498	851	623	6,972
<i>Divested Companies Still Subject To Holding Company Act¹</i>								
Divested by Exchange or Distribution of Securities to Security Holders	75	21 ²	21	117	3,117	107 ²	—	3,224
Divested by Sale of Property or Securities ³	51	16	14	81	985	111	20	1,116
Total	126	37	35	198	4,102	218	20	4,340

¹ By reason of their relationship to other registered holding companies.

² Northern Natural Gas Company, which was a subsidiary in three holding company systems and itself a registered holding company, is reflected as one divestment.

³ Includes all cases where total divestment was effected by sales of entire property to one or more buyers.

company device undoubtedly was sustained by the profits which investment bankers made from such security flotations.

It seems appropriate to say here that on balance, the disadvantages, caused by a few persons, and seemingly impossible of repetition in the bright light of regulation, are far outweighed by the advantages of the holding company principle which has brought more and better electric service to a greater number of people at lower cost.

Effect of Regulation

WHAT has been accomplished by the twenty years of Federal investigation and the decade of regula-

tion of the utility industry? One good that has stemmed from the creation of the act and related statutes, including the Securities Act of 1933 and the Securities and Exchange Act of 1934, is the assurance for the public that the utility empires that brought about their own downfall cannot be rebuilt. Such assurance, however, should not preclude consideration by the SEC of the adverse effect the agency's interpretation of certain sections of the act could have on the industry.

Since 1935, according to Commissioner Harry A. McDonald of the SEC, 470 companies with aggregate assets of \$11.3 billion have been divested, some in sales to other holding

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company systems. A total of 1,431 companies have been released completely from the SEC's jurisdiction by sale, dissolution, and merger. Near the close of 1948, there were about 46 holding company systems with total assets of \$15 billion subject to the act. As the administration of § 11 is completed, many of these companies will pass from the jurisdiction of the commission, but there will remain a number of integrated holding company systems subject to SEC regulation, he added.

At the request of the writer, the section of special studies of the division of public utilities at the commission kindly prepared the tabulations, Table I and Table II herein, which give a comprehensive picture of

the number of companies divested in the two periods mentioned: December 1, 1935, to June 30, 1948, and July 1, 1948, to March 15, 1949.

With that record of accomplishment and the seasoned knowledge of the utility industry acquired by the commission during the past ten or more years, there are many persons in the utility industry who are beginning to admit that the corrective features of the act benefited the industry as well as the security holder. However, not all of the comments would indicate any unanimity of favorable opinion concerning the act and its administration by the commission.

MANY, in fact, have criticized the commission sharply on this



TABLE II

TOTAL PROPERTIES AND SECURITIES SOLD OR OTHERWISE DIVESTED BY REGISTERED PUBLIC UTILITY HOLDING COMPANIES

July 1, 1948, to March 15, 1949

	Number of Companies				Assets of Companies Divested (000,000 Omitted)			
	Elec- tric	Gas	Non- Utility	Total	Elec- tric	Gas	Non- Utility	Total
<i>Divested Companies No Longer Subject to Holding Company Act</i>								
Divested by Exchange or Distribution of Securities to Security Holders	14	2	1	17	372	14	5	391
Divested by Sale of Property or Securities ²	4	4	—	8	135	1	—	136
Total	18	6	1	25	507	15	5	527
<i>Divested Companies Still Subject To Holding Company Act¹</i>								
Divested by Exchange or Distribution of Securities to Security Holders	15	6	—	21	273	94	—	367
Divested by Sale of Property or Securities ²	1	—	—	1	1	—	—	1
Total	16	6	—	22	274	94	—	368

¹ By reason of their relationship to other registered holding companies.

² Includes all cases where total divestment was effected by sales of entire property to one or more than one buyer.

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score. This includes charges of "detritmental liberalism," an interpretation of the SEC's administration of the act supposedly reflecting "flagrant" application of provisions that depressed the securities of the holding companies.

In the fall of 1946, when the market was quite off, the holding companies were hoping that the commission would slow down on orders to sell operating company stocks as a step in compliance with § 11. The utilities were anxious to sell common stocks to raise funds for construction purposes. However, the staff of the commission "continued as radical as ever," as one utility official phrased it recently when asked for comments on the over-all effect of the act. And, he declared, the staff "demanded continued sales by holding companies, with the consequence that investors realized that there was going to be heavy selling of utility common stock for those reasons. This had a further bad market effect; the situation now is such that utility companies have great difficulty in raising money for construction, and the holding companies cannot sell stocks of the operating companies as ordered by the commission in pressing for compliance, except at great sacrifice."

THIS same theme continues with other utility men who declare that the SEC's insistence on competitive bidding is "compounding our difficulties," citing the unsuccessful offers of operating company issues.

"The industry is anxious to comply with § 11 as rapidly as possible, but we feel that the SEC staff hinders us by trying to get too much done at once. Recent appointments to the commission indicate that the agency is tending to

more conservative representation. Perhaps more of this will bring about harmony," another said.

Among the old-timers in the utility field are economists and analysts who have prepared issues for market, studied trends, and witnessed the "purification" of utility stocks. These include observers who declare that the high cost of new money, with the requirement of a higher return on the investment, has had the effect of holding electric rates up; they cannot be reduced as fast as they used to be when the utilities were able to get "cheap" money. As a corrective, the suggestion has been made that § 30 of the act be administered—integration.

Utility lawyers also made some observations. In their view the so-called "Big B" was improperly interpreted. "The breakup of many utility systems is unfortunate, uneconomical, for the country," they declare. They, too, held that the SEC is hindering the industry at a time when billions have to be raised to keep the industry abreast of demand.

RECOGNITION of the fact that the Holding Company Act is here to stay would seem to obviate any retrospective consideration of its effect—particularly by the few industry representatives who apparently refuse to accept it, and who insist on holding pointless post mortems. Fortunately, in the interest of expediting compliance, this segment of the industry is small. The majority of utility executives today are preoccupied with untiring effort to keep apace of the greatest power demand in the history of the nation. Faced with the need to raise upwards of \$5 billion in the next four years, they are anxious to complete compliance

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with the act and not contest every issue surrounding the commission's order to comply.

To come around again to the title of this article, the answer obviously is, "Yes, there is a great need for the holding company." The utility industry is a vital, integral part of the national economy, ranking about the largest after agriculture and the railroads—both of which, it seems significant to point out, are almost completely dependent on electric power for their existence. The holding company was the vehicle by

which the industry got its start, on which it depended for its growth, and with which it will have to continue if it is to meet the unprecedented demand for electric service. The Securities and Exchange Commission, recognizing its grave responsibility, can work in harmony with the utility industry and become a commendable, decisive factor in furthering the success of the nation's economy through administration of an act on which the life or death of the electric power and light industry depends.



Management's Responsibility

"American business management must correct two serious operational errors if it is to survive. The first error of management is one of omission and involves its failure to meet the inescapable obligation of informing its employees and the public of the mechanics, advantages, and opportunities in the American democratic system. We have failed to merchandise the system of free enterprise to the voters of America.

"The second management error is one of commission. Practically every business and industry group in this great land of ours is outspoken as to the vital need for economy in government. The motive is twofold. Waste in government means economic loss and higher taxes. Also, the bigger the government the greater are the controls and the nearer is the approach to state Socialism. But management, itself, is in no small measure responsible for the failure to attain such economy and thus to prevent the continued growth of government. Despite strong statements of policy on this subject by almost every segment of business and industry, these same groups, or the individuals which compose them, are in the aggregate constantly campaigning for or supporting appropriations for government which they expect will serve their own selfish interests."

—S. V. FULLAWAY,
Secretary-manager, Western Pine
Association.



The Community Side Of Public Relations Problems

Getting along with the people who are a public utility company's neighbors is not a matter of dealing with isolated annoyances, but an accomplishment of general interest and fundamental importance.

By BETTY LEE GOUGH*

WHAT are the most pressing community relations problems of public utilities today? And what can be done to solve these problems?

It is only in recent years, with the increased emphasis that wise executives have placed upon getting along with the customers, that the utilities—as a group—ever considered such a thing as “community relations.” Once, the headaches and problems of getting along with the people who are the company's neighbors and its customers were considered isolated annoyances, to be attacked with whatever tools and weapons happened to be at hand.

Today, a vast majority of the nation's public utilities recognize the fact that these problems have a common denominator. They are community relations problems. Community rela-

tions has been defined as “the art—and the continuing job—of getting along with the company's neighbors, the men and women who live in its community, in a friendly, neighborly fashion; understanding their worries and requests, and trying to make them understand yours.”

Most utilities today know that it is necessary to get along with the customers and, more than that, to have the customers like them. Achieving this objective is a community relations job. Essentially, it is a selling task. The company has to sell itself in the same way its salesmen sell telephone directory listings, electric refrigerators, or rides to faraway places.

The specific problems that crop up in this sort of selling are community relations problems. Today, the utility industry faces a set of community relations problems that are vastly different from those which existed before the

*For personal note, see “Pages with the Editors.”

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war. The tensions, shortages, and priorities of the war and the immediate postwar period made many of them. Expansions due to increased postwar demand built up other problems.

EACH company faces a set of community relations problems that (in the specific angles if not in the overall problem itself) are different from those of other utilities. But the broad general pattern of community relations is not too different in one city or another.

Knowing what all kinds of public utility executives are thinking and doing by way of solving today's community relations problems can be helpful in meeting specific community snags. Here are the reports of several representative telephone, gas and electricity, transit, and transportation utilities in various sections of the country:

According to John J. Carver, public relations supervisor of the New England Telephone & Telegraph Company, Boston, Massachusetts, that company's community relations calendar is clear. It got that way because of a continuing policy for building public good will and public understanding of the company's problems.

"Fortunately," Mr. Carver says, "we do not have any pressing community relations problems at this time, nor do we anticipate any because of our long-range policy which has been in effect for many years. Operating in five states, and in hundreds of communities in these states, we have benefited by our own experience as well as the experience of other industries in formulating plans which obviate to a great extent any public reaction to our presence in any given community.

Moreover, the very nature of our business does not lend itself to the community problems which arise from the presence of smoke, odors, or fire hazards.

"WE at all times make concerted efforts to be 'a good citizen' and we sample public opinion before deciding upon any course of action. Having more than 37,000 employees is of great assistance to us in determining any public reaction which might exist.

"How we meet specific problems may best be illustrated by reviewing our experience in Cambridge, Massachusetts, some years ago when dial service was being planned for this community. Studies revealed that our wire center would have to be relocated, meaning that our central office would have to be placed within the immediate proximity of the Harvard yard. To eliminate any reaction, the architecture of this new telephone structure conformed to the architecture of the Harvard University buildings with the net result that favorable comment resulted not only from the university authorities, but from the public in general."

Another telephone utility—the Lincoln Telephone & Telegraph Company of Lincoln, Nebraska—still finds a knotty problem in community relations hanging around despite efforts to iron it out. This problem consists of pacifying that large segment of the public which must necessarily wait for telephones until expanded facilities can be completed.

THE problem is not one but two, as the Lincoln Telephone & Telegraph Company sees it. First poser is

THE COMMUNITY SIDE OF PUBLIC RELATIONS PROBLEMS

to provide, "as quickly as possible, sufficient telephone facilities so that all who desire service may have it without unreasonable delay." Until problem number one can be overcome, problem number two will still confront the company. It is to get the community on the side of the company. "They must understand why a delay is necessary," said an executive of the Lincoln Telephone & Telegraph Company.

What can be done to overcome this double-barreled problem? Regarding it as essentially a selling job (most public relations experts regard all community relations problems as such), the company uses newspaper advertisements to explain the situation, point out that it is adding new facilities as fast as it can, and make a plea for understanding and coöperation in the continuing shortage brought about by increased demand for telephones.

Al Wood of the Kansas City Public Service Company sees safety as the utility's most pressing community relations worry today. How much of a furor this rates in Kansas City can be seen by an editorial that the *Kansas City Times* ran last Christmas. Kansas City Public Service used that editorial as a tool to make its employees (and its community) aware of the need for better safety measures, and to sell the fact that the utility intends to do something about it. Mr. Wood cites the

Christmas editorial that was used by his company as an educational and as a selling tool:

"OUT of tragedy in this Christmas season the conscience of Kansas City has stirred. We all know that most of the men, women, and children who are now listed in the traffic fatality records should be at the family firesides today.

"For the present, at least, a conviction has spread over the town. In our hearts as well as minds we know we can do better and must do better another year.

"The methods that make a city safe for ourselves, our friends, and families are well known, proved by the experience of Kansas City and many other cities. A whole population aroused to the causes of accidental death and injury can remold the use of its streets to its own desire.

"Back in 1933 when fewer cars were in Kansas City 101 persons were killed in traffic accidents. Most people were shocked but they assumed that such a terrible loss of human life was part of the price of using dangerous but otherwise pleasing motorcars.

"Years passed. Kansas City discovered that a few other cities were proving that such a price was unnecessary. We copied and improved their methods.



Q "Most utilities today know that it is necessary to get along with the customers and, more than that, to have the customers like them. Achieving this objective is a community relations job. Essentially, it is a selling task. The company has to sell itself in the same way its salesmen sell telephone directory listings, electric refrigerators, or rides to faraway places."

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"In 1940 only twenty-four lives were lost to motorcars and Kansas City won the award for the safest city of its size in the United States. We could do still better next year. In 1940 the one unconquered enemy of safety was darkness. General driving was so good that bad daytime accidents almost reached the vanishing point.

"Now modern lights have covered most of the dangerous thoroughfares and they are spreading throughout the city week by week. Modern lights are so close to daylight that a pedestrian can be seen clearly a block or two away.

"WHAT are these methods that save lives? Nothing spectacular. Most people have at least a general knowledge of the rules of good driving, but they are easily forgotten for moments, sometimes tragic moments. Most people are ready to open their hearts to year-around observance of the spirit of consideration for others that rises high at Christmas time.

"Never ending reminders are needed. Judging by the flood of letters and telephone calls to *The Star* this month there is as much spontaneous interest in good driving as in the weather. Keeping it alive every month of the year is the foundation of a safe driving program.

"A very important reminder is the policeman. And that means a great deal of public patience and human charity is required. The responsibility for fair, intelligent enforcement is on the police officials. But at the best some policemen, like some drivers, are going to do fool things. The average driver's patience is taxed to put the great, over-all objectives ahead of his own anger over a \$3 ticket.

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"In the next year Kansas City will see its most ambitious campaign of public information. The city government and the safety council are putting money into it. The advertising and sales executives club is undertaking the job of saturating the whole city with information on good driving. The mayor has selected an outstanding civic committee to give force and direction to the campaign.

"Today we can all look ahead to the Christmas of 1949. The conscience aroused now, the efforts to be made in the next twelve months can account for many united and happy families when the yule log flares and the lights glisten on the tree."

IN reprinting this editorial, the company drove home its selling messages with two hand-script messages. One, at the top, said: "Kansas City can have safety if it wants it bad enough." Beside the bottom paragraphs was a similarly scripted note: "O.K. Now it's up to us to make good on this."

According to E. N. Pope, of the Carolina Power & Light Company, Raleigh, North Carolina, two problems that loom largest on the community relations horizon today are, "Combatting inroads being made by the Federal government into the electric power business," and "Developing a more stable economy through agricultural and industrial development."

The Carolina Power & Light Company is attacking these two problems by: (1) beaming "advertising and publicity in the right direction," and (2) sitting down with the local Carolina agencies to dope out measures for bettering the industrial and agricultural conditions in its area — then



Better Public Understanding

"... eastern utility cited 'Better public understanding of our operations and finances' as the biggest community relations problem of 1949. This is a problem of all privately owned American businesses. Like manufacturers, retailers, other utilities, and private enterprises of all sorts, this eastern utility is using advertising space, tell-all booklets, and talks at meetings to explain the way it operates."

putting the plans developed with local agencies into effect.

MANY pressing worries beset the transit utility. Four were listed by the Erie Coach Company of Erie, Pennsylvania. They are:

The number of taxicabs that, under a five-for-the-price-of-one rate, carry short-haul riders around town. The short-haul riders had always been "profitable patronage" to the Erie Coach Company. But now it sees them slipping into taxis instead of busses.

Share-the-ride arrangements at large industrial plants in the Erie area. The case of a single plant, which is the largest local employer, was cited by the transit firm. Here, share-the-ride plans left the Erie Coach Company with less than 10 per cent of the workers as patrons!

Requests received from suburbs and outlying areas whose citizens believe they are being shortchanged on transit facilities. Especially in the

newly developed suburbs do the residents cry for more bus service. The problem of the company is to pacify them without overextending itself on unprofitable runs.

Too low rates. These must be adjusted to higher rates at some time. How to do this without arousing public resentment is noted as one of the Erie Coach Company's knottiest community relations problems.

THE company is frank in stating that nothing can be done about the first two problems: The share-the-ride plans at industrial plants, and five-for-the-price-of-one taxicab rates that draw patrons away from the busses. But it is taking measures to solve the remaining problems.

To the residents of new suburbs and outlying sections, the company is making a strong effort to tell the facts. The bald facts are that it cannot support any more nonpaying lines under the present setup where its revenues from

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the profitable, long-established runs are decreasing.

The rate raise question is a tricky one. The Erie Coach Company realizes that "it requires expert handling." They're trying to do the job so that the public will be in sympathy with the company, rather than against it when rates must go up.

Another eastern utility cited "Better public understanding of our operations and finances" as the biggest community relations problem of 1949. This is a problem of all privately owned American businesses. Like manufacturers, retailers, other utilities, and private enterprises of all sorts, this eastern utility is using advertising space, tell-all booklets, and talks at meetings to explain the way it operates.

WILLIAM S. FARRELL of the Stockton City Lines, Stockton, Cali-

fornia, points out a problem that grew gigantic during the war, and hasn't been entirely solved yet. The drivers whose courtesy or discourtesy to passengers can do so much to sell (and sometimes to unsell) the transit company, are not always as pleasant to their riders as drivers should be. Mr. Farrell names twin problems: safety and driver courtesy. These are his most pressing worries.

To teach better driving, and better handling of busses in automobile and pedestrian traffic, the Stockton City Lines is conducting safety meetings regularly for its drivers. The same sort of teaching sessions go into better public relations.

Drivers learn that they are the company's first line of neighborliness, and that the company is often judged by their conduct.

"PROFIT is not the same thing as money in the bank. A company's reported net income is not the same as the company's cash account. It often happens that a company will pay out more money, not counting dividends, than it takes in during a year and still will report a substantial profit. Profits are not something taken out of the stream of economic activity for the benefit of a few. They are an essential working part of the whole process of production. They are the means by which our productive facilities expand. As such, they benefit the entire community. They provide jobs for the people who put up new plants and who make new machinery. They provide jobs for the people who work in those plants and at those machines. "By making possible better tools and more tools per worker, they increase individual productivity, which is the only way that real wages can be increased. By making possible greater output of goods, they benefit the consumer. The profit which is reinvested in a business may be compared with the seed corn which a farmer sets aside for future production. In a very real sense today, profits represent industry's seed corn. In a growing nation, such as the United States, there is a constant need for greater quantities of seed corn."

—EUGENE HOLMAN,
President, Standard Oil Company
(New Jersey).



Tomorrow's Executives

Since we seem to be living in the "Era of the Engineer" as far as utility corporation top executives and industrial leadership are concerned, it is a fair and sensible question to ask whether the schools of today are providing the necessary training for the executives of tomorrow. Here is a challenging analysis of the demands made at the top level of management, by an executive of one of the nation's leading utility manufacturing concerns.

By WALTER EVANS*

VICE PRESIDENT, WESTINGHOUSE
ELECTRIC CORPORATION

CIVILIZATION has advanced, down through the years, because men have "made things." And, by and large, the chief makers-of-things have been those mechanically endowed individuals—the engineers.

They have become the real architects of the good living we accept and enjoy today as a matter of course. They are our academic forebears. They have passed along to us a bright and honorable tradition of service to mankind.

Thanks to them we understand the wheel and the lever; we generate and use steam and electricity; we exchange intelligence by the printed word or by telephone, telegraph, or radio; we fly from coast to coast in a matter of hours; we have vaccines and vitamins to keep us healthy; and we use wood,

paper—even coal—in the clothing which keeps us warm.

Each of these wonders, today's engineer takes in his stride. His ingenuity forms the broad base on which the high standard of living in America rests. This modern engineering development along with modern business methods will continue to make the United States the focal point of progress.

It is important to recognize though that, with the increased complexities of modern business, the process of converting the engineering concept into a useful salable product has become almost equal in importance to the original idea. Where earlier the engineer did his job, and the businessman tended to his, there is a new demand now for executives—people who can co-ordinate the operations of the many departments necessary for corporate success in industry.

*For personal note, see "Pages with the Editors."

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Because engineering and business are irretrievably intertwined, consider, if you will, the major problems of successful business operation.

It must design a product for which need exists or for which need can be created. It must procure its materials and plan its production so that costs will allow a reasonable profit mark-up—and still meet or better the price and performance of competitors. It must integrate all phases of its effort—design, procurement, manufacture, distribution, sales, finance, over-all management—for maximum efficiency at lowest practical costs.

There is nothing new or mysterious in this formula. It was employed a century ago, as American industry was beginning to come of age, and it is even more applicable today.

AMERICANS saw their first automobile a little over fifty years ago and liked it. They liked it so well that they decided it should be made available even to families of modest means. The result was America's first system of mass production, introduced and perfected by Henry Ford, and the world's first low-priced automobile.

Other auto builders were quick to see—and feel—the success of the plan, and soon they were borrowing from the same book. Manufacturers in other fields noted the sensational growth of the infant auto industry and soon they too were copying its mass production techniques.

The advent of mass production was a real tonic for the engineering profession.

Prior to this time engineers had been going quietly about their work for years. They were recognized as neces-

sary adjuncts to business, but when their designing and testing were completed they usually retired to their laboratories to begin new experiments while administrators, trained in other fields, took over active management.

These top-level executives usually came from two professions—they were bankers or lawyers. Few came from the ranks of engineers because of the dearth of engineers with the broad interest and experience required.

Banker-trained executives contributed an ability to translate the need for new or expanding plant facilities into language which prompted financiers to extend credits, a particular skill in working out tangled financial details with customers, a knowledge of foreign trade and exchange, and a highly valuable capacity for handling hundreds of other matters beyond the scope or training of engineers of that era.

Choice of attorneys for top management posts had a sharp rise as business became hedged 'round more and more by regulations, and as its tax burdens mounted. The practice had its early impetus during the trust-busting days of President Theodore Roosevelt.

WITH mass production the engineer came into his own. As industry became more complex, the engineer who understood what was happening joined the lawyers and bankers in administrative positions, because industry had new problems which only the engineer could solve.

To most engineers this was a difficult and distasteful task because they were unprepared by training — and sometimes by temperament as well — for this dealing with people rather than with things.

TOMORROW'S EXECUTIVES

Despite these handicaps, during the last decade engineers have begun crowding the bankers and lawyers in this contest for high-level administrative posts.

A dramatic example of how successful the engineer has been is found in a survey conducted by Earle B. Norris, dean of the School of Engineering at the Virginia Polytechnic Institute, which showed that one-third of the largest corporations in America—50 out of 150—are headed by graduate engineers.

Mr. Norris explains that the survey was tailored to cover a cross section of American corporations, especially those which were large employers of labor or had vital problems of labor or public relations. Precautions were taken to avoid including an excessive number of corporations of a primarily engineering nature.

The corporations represented included railroads, producers of steel, aluminum and copper, coal and oil, major technical industries, a wide variety of manufacturing including textiles, electrical machinery, agricultural implements, machine tools, tobacco, furniture, and chain stores, mail order houses, department stores, and similar firms in principal cities.

IN looking at the results of this survey it becomes even more significant when we realize that there are 1,600 liberal arts and teachers' colleges compared to 160 engineering colleges.

Among the engineers already distinguishing themselves in such posts are:

Leroy A. Wilson, president of the American Telephone and Telegraph Company; Benjamin F. Fairless, president of United States Steel Corporation; Eugene G. Grace, chairman of the board of Bethlehem Steel; Charles Erwin Wilson, president of General Motors; and Crawford H. Greenewalt, president of E. I. DuPont.

I THINK it might be well to digress for a moment to see just where engineers wind up in our economic life. Generally, they follow one of three courses:

First are those who devote their lives to teaching, research, or advance development.

Second, those who choose active careers as engineers in industry with the opportunity to move on to management posts.

Third, those who never use their engineering education as such, but find it of greatest worth in achieving important positions in other fields.



Educational Background of 150 Corporation Presidents

<i>Type of Training</i>	<i>Number</i>	<i>Per Cent</i>
Engineering	50	33.3
Liberal Arts, Teachers' Colleges	45	30.0
Common School	16	10.7
High School	13	8.7
Lawyers	11	7.3
Business Administration	6	4.0
Commerce, Business Colleges	5	3.3
Pure Science (all chemists)	4	2.7

The types of engineering represented in the above group included Mechanical, 14; Civil, 7; Electrical, 4; Chemical, 4; Mining, 3; Metallurgical, 2; Naval architectural and marine, 2; Aeronautical, 1; and unspecified 13.

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Each of these categories makes an important contribution to our way of life, and it would be a brave man, indeed, who would undertake to say which contribution is greatest.

Our concern, however, centers about the second and third groups from which our distinguished list of present-day business leaders comes. When one considers that men in these groups receive essentially the same scholastic training, it seems wise to inquire what specific characteristics enable certain men to move on to high management positions.

Five special attributes appear to mark these successful individuals: an ability to express themselves clearly and well; normal curiosity regarding economics, finance, law, psychology, and other nonengineering subjects; a willingness to make the logical and reasonable compromise with perfection which day-to-day business requires; a ready understanding that income must exceed outlay; and, above all, an ability to get along with their contemporaries and at least to understand their competitors.

Unless one can express his views and opinions to others, he is of little worth as an engineer or as an administrator. Today's executives must maintain a constant contact with financiers, who provide their plants and credits; suppliers, who provide raw materials; engineers, who design their products; labor, which builds the products; the sales force; and, finally, the customer to whom they must look for the profit which enables them to continue in business. Unless their contacts with each of these groups are in mutually understandable language, their jobs are not well done.

BROAD collateral knowledge is essential to any engineer who aspires to management posts. He must learn why people buy one product and ignore another; understand the market trends and analyses; know the whys and wherefores of finance; become familiar with elementary business law; observe labor trends and management reaction.

Engineers are inclined by nature to be perfectionists. Every engineer is sure that his fine handiwork of today can be made even finer tomorrow, and it is amazing how often he is right. If our predecessors had been content with their first early models of the steamboat, or the locomotive, or the airplane, progress would have bogged down before science had an opportunity to produce its greatest marvels.

B. G. Lamme summed up other aspects of this problem many years ago, however, when he said, "The test of a good engineer is whether or not he can drop the subject when he gets a design that is good enough." The truth of that statement is even more apparent today, particularly to the business executive who recognizes that industry must produce goods—not just design them—if it is to prosper, and production is impossible if designs are changed from day to day. Thus, he realizes that practical operation must make the logical reasonable compromises with perfection which make possible continuous profitable operation. The successful engineer-turned-executive realizes that there is a sharp and irreconcilable difference between competitive production demands and the creation of a single model shop unit. Production requires, for example, a design which can be made at the lowest



Engineers As Perfectionists

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cost consistent with satisfactory quality. It calls for connections and adjustments easy to get at and simple to operate. It requires the fewest possible parts and the simplest assembly plan. It is this "know how" which frequently means the difference between red or black ink.

IT is the basic "facts of competitive life" which the practical administrator never overlooks.

Each of the foregoing characteristics is essential to management success, but there is another without which all others are lost. This magic key to successful administration is ability to get along with people. This ability to cooperate with one's contemporaries influences every human relationship and is responsible more than anything else for the success or failure of a business executive.

It is obvious that no man can predict the future with complete accuracy.

At best, by analyzing the past and present, only a future trend can be contemplated—a trend which will be influenced by many forces. I firmly believe that the engineer is tomorrow's executive—if he wants the job and if we, as today's engineers, lend our support.

Fifty major corporation presidents are proving that engineers do make good management material. I think we are all proud of this record, but all of us should be devoting some of our attention to helping future engineers better this record for their own good and for the economic health of the nation at large.

We know that some engineers make good administrators. The problem, to me, seems to be why aren't there more engineers in executive posts, and what can we do about it?

THE answer to the why question, I believe, lies deep-rooted in the

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personal traits of character necessary for a man to be an engineer; and, in turn, in his training, his choice of employment, and in the general environment which these things produce.

An engineer's training—an orderly scientific approach to a given problem—gives the engineer a sound foundation for management responsibilities. If he adds the special attributes mentioned earlier, he becomes eminently qualified for broader responsibilities.

However, by its very nature, engineering attracts individuals who seem to find this broadening effort difficult. Students frequently are people of precise mental habits. Their intense interest in their chosen field produces a marked tendency toward clannishness.

Development of complex formulae or completion of hundreds of long-drawn-out experiments leaves little time for outside interests. Engineers deal in exact sciences. Two lines bisected in the same way produce the same angle today—yesterday—tomorrow, and the engineer is inclined to develop his personality in the same ordered perfection.

Similarly, most of today's engineering training accents preparation for strict engineering application with little or no attention given the broader aspects of business administration. New types of engineering—the increased specialization of the engineer—have stampeded some schools into pouring more engineering courses into their curricula. As a result, in many instances, not even the status quo—unsatisfactory as it may be—is maintained, but, instead, what few elective subjects engineers have had in the past are being supplanted by more engineering classes.

MAY 12, 1949

GREATEST weakness of the present system, it would seem, is this failure to provide good, solid, academic fare which will guarantee a good engineering education plus the broader business background which will enable graduates to qualify readily for broader horizons.

Finally, industry must not be guilty of limiting the possible achievements of the engineer in the management field. The engineer doing exemplary work in the laboratory or in the development field must not be prejudiced in his opportunities to accept new responsibilities because of the value of his work in his engineering position.

I feel that these are the major reasons why more engineers are not moving into managerial positions. The problem is what can be done about it?

In the first place, I think we should realign our sights—give a new set of standards to tomorrow's engineer. The miracles of modern living are a tribute to yesterday's engineer—the man who was asked only to create them. If we can show that an engineer can provide even greater service in the future by expanding his activities beyond the pure engineering field, I feel sure that the student of today will accept this challenge and meet it as successfully as did his technical ancestors.

Part of this campaign must include bringing home to the students in engineering schools the importance of expanding their interests to include a variety of activities, and to develop in their minds a receptive attitude toward "liberalized" curriculum, if the latter is to be made available.

BECAUSE of the large amount of information which engineering stu-

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dents must absorb in a short period of time under our present educational system, diligent study becomes a necessity, and diligent study, in turn, frequently leads to aloofness. I certainly am not trying to discourage application, obviously because engineering cannot be absorbed in an occasional exposure to textbooks. It does require study—and serious study.

But I believe there is a fine balance between serious study and the more nebulous advantages which come from collateral interests and participation in broader activities. For example, we at Westinghouse attach considerable importance to school activities in selecting men. It seems to me that participation in campus politics, sports, dramatics, journalism, and music, does much to develop the very characteristics so essential to managerial success.

In moderating the training an engineer receives, colleges and universities can make even more valuable contributions if they will reexamine existing courses and realign subjects to meet the expanding needs of the engineer. This problem is not a new one of course. Several prominent engineering universities and colleges are attempting to cope with it by expanding their curricula. Many of the leading engineering educators are working with industrial leaders, and much progress has been made. However, there are still many facets to be explored although

the general objective is becoming more clearly defined and accepted every day.

PROGRESS in this direction is indicated by such conceptions as the 5-year plan advocated by the American Society for Engineering Education, and by the tendency to deemphasize engineering specialization in the 4-year course with postgraduate work or industrial training providing the additional training required. Among the many colleges and universities pioneering in this field are Brooklyn Polytechnic, California Institute of Technology, Carnegie Tech, Case, Cornell, Cooper Union, Johns Hopkins, Penn State, Purdue University, Princeton, City College of New York, Michigan State, Stevens Institute, Stamford, and the Massachusetts Institute of Technology.

This policy of a thorough grounding in such basic engineering subjects as mathematics, chemistry, and physics while emphasizing the importance of English, public speaking, psychology, philosophy, and other cultural subjects, represents a realistic approach to the problem. Courses in political economy, industrial organization, and accounting—heresy in my days as an undergraduate—all point in the right direction. But it is not the entire solution.

In the first place, this program must be expanded to include all of the other engineering colleges and universities.



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It must be the rule rather than the exception.

In the second place, new teaching concepts, new types of courses must be devised if the engineering student is to obtain the best results from this departure from traditional educational methods.

SIMPLY inserting the freshman arts courses into the engineering course will not solve the problem. It requires a new approach, new courses of study in cultural subjects which will attract and hold the interest of the engineer. For example, where a straight economics course might be of little interest, the economic results of the great engineering inventions might serve to bring economics home to the engineer in such a way that it will absorb his interest and destroy the far too casual approach which many engineers reserve for courses outside of their field.

The development of interesting courses for the engineer in the cultural field represents the first challenge for the educator. The second challenge comes from the nature of the engineering student—and to meet it the educator will have to revise the teaching methods in this new field.

Most engineers learn by doing, by solving problems, applying principles. The so-called engineering method has many virtues even when applied to problems in other fields. If the advantages of this method are to be retained, the cultural subjects should be presented in such a way that the engineer can apply himself to the best of his ability.

Specifically, the all too often accepted method of presenting cultural subjects in a 2-textbook, long-series-

of-lectures technique will have to be revised if the ultimate goal is to be realized.

WHILE I feel that the present educational system does a fine job of training research men, teachers, and engineers for advance development, I think the college can help industry's engineer in another way. To close the gap between the classroom and industry, the importance of having the undergraduate and the teacher work in industry can hardly be overemphasized.

In many progressive colleges, engineering undergraduates must have summer employment with industrial organizations as a prerequisite for a degree. From our own experience in working with members of the faculty, we know, too, that many of the instructors and professors retain a vital connection with industry. Because this background is so important in connecting theory with practice, I feel that a definite program for all engineering undergraduates and all faculty members would be worth while.

And, finally, what can industry do? In the first place, the trend toward acceptance of the engineer as good executive material is increasing. Engineers who have the additional qualifications necessary for management responsibility are setting a successful precedent which will accelerate the progress of their younger colleagues.

Then, too, industry has recognized its responsibility when it requests a broad-gauge educational program for engineering undergraduates. It is fulfilling this obligation with an inclusive program of student recruitment, and following along with what amounts to industrial "postgraduate" courses.

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TYPICAL of industry's "postgraduate" work is the student training program offered by Westinghouse. Engineering graduates, joining our company, report to the East Pittsburgh Works where they study and work in many departments before they are ready for assignment to a specific division.

Many companies prefer this system, even though they do it with the full knowledge that, but for the rare exception, few of these men will "earn their salt" for at least a year or two. They know it will take them that long to get the "feel" of the business; to learn to find things; to observe methods; and—most of all—to begin to absorb some of the experience of their older associates.

Although I agree that academic postgraduate work is essential for the research engineer and the teacher, I feel that for the industry engineer this actual training in industry is superior.

By giving the graduate engineer an opportunity to inspect many different types of engineering jobs, he is more likely to select one which interests him; he will do a better job; and he will be happier while he's doing it. Then, too, since in his training period he sees what other departments are doing, he is aware of their problems and can offer better coöperation.

But even more important, the high degree of specialization in industry today frequently nullifies the effect of academic specialization. Because there are so many varying factors, most graduates are understandably unable to decide what industry they want to work in, to say nothing of what particular phase will attract them. Furthermore, almost any industry you can name is developing so fast that much of the up-to-the-minute information is available only in the industry itself.

INDUSTRY recognizes these factors, and, for these reasons, prefers to offer graduate training in the plant.

In short, I am not trying to set forth a brief on "how to succeed." To do that I could only paraphrase an engineer of an earlier era—Benjamin Franklin. His simple formula—work a little harder than the man next to you—is as good today as it was in his time.

What I do want to stress is that today the engineer faces new horizons. He can be of service not only in his profession but also in the major administrative posts of industry. Although progress has been made, it is up to the engineering student, the college, and industry to see that today's engineer is qualified to fulfill his destiny. If all of us do our jobs well, we know who will be tomorrow's executives.

"I*f business looks to government to tide it over bad spots—worse still if it looks to government to quiet even its fears—it will become the servant of government. Business must look to itself and it seems to us that since the war it has done a fairly good job of looking to itself and tackling readjustments when they became necessary. That, and not government expenditures, is the thing to stress."*

—EDITORIAL STATEMENT,
The Wall Street Journal.



Fair Wages in Public Utilities And Private Enterprises

A consideration of the foundation upon which just compensation to employees rests, and a discussion of its contradictions by special groups and ideologies.

By J. O. HOPWOOD*

DIRECTOR OF PERSONNEL ADMINISTRATION,
PHILADELPHIA ELECTRIC COMPANY

I. The Basis

Is this essentially a controversial issue or does it bear objective analysis? In the utility industry we have been conscious of the objective nature of the problem of wages for more than a quarter of a century and it has been considerably resolved to the principle that wages, basically, are integral with the accomplishments of the people in a company, over-all and individually. It strikes to the roots of society.

The principle, obviously, is true in private enterprise throughout industry but a utility company is an institution in its community which inherently must be stable in order to perform a service fundamental in the life of the community. Its breakdown is a com-

munity breakdown. Responsibility for adequate development of the company has therefore been very great in utility company management. It has been realized that one of the conditions essential to stability is administration of justice pertaining to the work situations and accomplishments of company people and that that means equitable distribution of their production liquidated into income. Such is the foundation of a balanced economy, which entails possession of what we produce, not its seizure by somebody else with power.

Here is a condition which development of modern industry has brought into being not covered in the realm of orthodox economic theory. That declares: "Competition is the only force yet discovered which tends to give a fair wage to every worker." A wage

*For personal note, see "Pages with the Editors."

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set by competition depends upon the number of qualified bidders for the job in a free market. The larger the number, the lower the wage, and this is no return for coöperation and efficiency in the process of production. People associated in enterprise know it and resist it as economic dogma. Inefficiency and instability result in an organization.

THE only basis of fair wages in associated enterprise is accomplishment, as is true of profits, because it returns to the individual his portion of the produce. The larger the job in a company, the larger is the accomplishment of the efficient job holder. Fair wages have corresponding differentials throughout the company wage structure. This is coördination of wage standards with levels of accomplishment. It is necessary in order to dispense to job holders, as far as possible, proportional returns in the distribution of the income via the payroll. The fact cannot be ignored in efficient management.

These considerations arise from the concept that the company enterprise, like all other social units, is an organic body because it is composed of people (living organisms) specialized and united in exercising functions in living. Composition is by the process of organization which operates universally as natural law in the creation and growth of all unit entities in existence, by specialization and integration of parts. Within the unit is coöperation by all members through integration. Outside is competition, among entities in the same environment, and "survival of the fittest."

In current philosophy at large, con-

ception of the organic nature of association in human enterprise is deplorably lacking. People are scarcely conscious of the operation of the basic laws of organization and their universal effects on the world and on social relations. We wonder why we have so much trouble. To the extent that these natural laws are not applied by the people, through constituted authority, disunity and conflict occur. In ignorance, they are no more to us than a mechanical scheme of human invention, but in nature they are cosmic in creation and growth from the atom on up to the living organism and from jungle life to organic society. In the evolution of modern industry, people have become associated in enterprise with extreme specialization in division of labor and integration in company organizations, but the process falls far short of consummation through our blindness.

IN utility companies, it has long been realized that to hire today and "fire" tomorrow, to get cheaper "help" in a competitive market, even in times of depression, means inefficiency and instability. People must be selected and trained for continuing service in specific operations of a great many kinds. They must grow in it. This is of mutual interest to them and the company. Few could duplicate their wages elsewhere because they have increased through progressive increments in the particular service. Such wages, obviously, are not just determined by free competition in the labor market for labor as a commodity. Could we expect that, in the evolution of associated enterprise in a growing society, the problem of wages would remain in the horse-and-buggy stage?

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Public patronage of utility service has constantly increased as efficiency in company operations has constantly increased, producing more and more service at less and less cost with increasing return for company distribution to more and more creditors, job holders, and investors. These are the effects of the process of organization in private enterprise — higher and higher standards of living and social life. Efficiency pays everybody.

In every company enterprise, production is the accomplishment of its people, united; engaged in either providing the tools (capital) or in doing the human work in all of its categories. The production, liquidated (sales), is gross income. Less claims of outside creditors, this organically reverts to the members of the enterprise — job holders and capital investors, as their own in proportion as they function in the accomplishment. Functionally, they are partners. Investors provide the tools and equipment and job holders perform the human work.

How can we know what this all amounts to? It is an organization problem. This problem is not confined to the realm of any one compartment of human knowledge—orthodox economics, law, finance, conventional engineering, etc. It has wider scope,

involving conception of the organic world to which it basically pertains. The *company* is the object of examination as to its human composition (structure) and operation (functioning).

Analysis shows the company organization as a unity with two phases in structure and function, inseparable in production. They are two bodies of people, each organized for its own functions. One consists of the investors, who provide the capital functions, and the other consists of the employees who provide the human operating functions in production. Profits are the returns to the investors and wages the returns to employees.

Company operations performed by the employee organization are under a chief executive *who is an employee*. Duties in management as well as in routine work are delegated to job holders from higher to lower levels. Duties in organization and administration (management) are job duties in the production process in any line of work, office, plant, or field, and everyone in a job of any kind has a part in the productive accomplishments of the whole. The material interest of every job holder is basically the same—for an equitable share (wage) in the production. This is true also of the investor of capital. It is evident that, as individual



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members, we are in close coöperation with others in specialized work, integrated in producing the commodities or services which are sold. This is our part and interest. The company as a whole is the entity in production, not we individuals who compose it.

THE nature of any organic structure is intelligible only as we can comprehend it as a whole. This is true of a company and any other organized body. The company must be seen in perspective and in its human nature and managed as a whole, not as parts separately and in conflict. The jobs of its people are parts in the work of the whole and have no separate existence or value. Cost of labor *sold as a commodity* through bargaining power does not affect the size of a job in an enterprise.

From production sold, in a going concern, after deduction of claims of creditors outside, we have a net amount which is divided between capital investors and job holders. Here the division is arbitrary but it can be reasonably equitable through collaboration and intelligent judgment of the people in the light of experience and developments from year to year. The facts can be known to all concerned through close communication and statement sufficiently simple in explanation. Gains from progressive efficiency must be divided and understood. Prices, wages, and profits are subject to efficiency in operations, and wages thus related to income are a share in production and an incentive to efficiency when understood and experienced by the participants; the people reap what they sow and are conscious of it.

IN this functional partnership, how do we, as individual job holders, share equitably in the total payroll distribution, whatever its amount may be? It is obviously by dispensation in proportion to the extent of individual coverage in the work of the company as a whole. But how can that be appraised?

Our work, individually, has always been appraised roughly, but it must be identified, specified, compared analytically with the others, and judged as to scope and performance. Judgments of scope of job are not slide-rule measurements but they are collaborative, open to criticism, and not in the realm of mystery. The unskilled, the skilled, the supervisory, the technical, and executive jobs are all objective in nature. Observable differences in jurisdictional and problem area are positive for *equitable* distinctions.

The point, with regard to the jobs themselves, is that in every organization, through its division of labor and integration to operate as a unity, the jobs, by natural law, form a gradation in coverage. This is from the widest coverage or scope of duties of the chief executive job downward, as the fields covered are more and more restricted, to the simplest unskilled jobs. The meaning of this is that potential accomplishment in the work of the whole relates to the scope of job duties.

THE measure is relative among the jobs which make the whole. The organization is a concrete structure. It can be analyzed into its units of composition and their job components. The jobs can be analyzed into their duties and consequent detailed activities and aligned in their natural gradation from



Selection and Training of Employees

"IN utility companies, it has long been realized that to hire today and 'fire' tomorrow, to get cheaper 'help' in a competitive market, even in times of depression, means inefficiency and instability. People must be selected and trained for continuing service in specific operations of a great many kinds. They must grow in it."

chief executive down to the bottom in as many levels as necessary to distinguish appreciable differences in scope of duties (functional area), regardless of kinds of work. Any other consideration is irrelevant and misleading. We are subconscious of this order, but we can bring it to full consciousness as we would do in dealing with things in the physical world, and it is sufficiently simple. Complete analysis shows the specific jurisdiction and activity of every job and is positive evidence for comparative alignment in the series of the organic whole.

How can this affect our wages as to equitable differentials? This too is sufficiently simple. To the gradations which we can mark off for recognizable differences in the series of levels from top to bottom, base wage rates can be assigned with an equal percentage differential. This establishes bases with proportional differences for jobs in the different levels. They are for full proficiency performance but, for each

level, several lower rates with equal percentage differential can apply for progression in proficiency up to the full measure. Thus we have a base wage rate structure coördinated throughout with respect to the levels in productive accomplishment, and the people can share proportionately in what they produce. They reap what they sow. We are not averages; we have individuality and so do the companies in which we work. Statistical averages and totals for industry at large are abstract and no measure of what we in individual companies are doing.

II. Contradictions

INDUSTRIAL distress, of which we have had so much, relates to the lack of a stable foundation of ideas of our industrial relations. The focal point is wages, meaning all income from human work. Arbitrary powers are seizing our equities in production in large measure and changing our American way of life. We have been

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largely committed to *class* ideas when we should think of ourselves in our individual situations, associated in enterprise and *earning a corresponding share* of the production as our wages.

One of the supporting reasons advanced for the National Labor Relations Act was to make way for "labor" to *share* in the returns from production through bargaining *power*. The share was to be measured in terms of *bargaining power* and the balance of power was to be in favor of a *class*. The position of the individual in the operations of production was left out and even barred from consideration in the pattern of conflict which has been established between two classes — "labor" and "management."

All of us, whose work is our livelihood, claim as self-evident and inalienable the right of freedom to work and to possess what we produce. We believe in government to protect these rights. What we receive from our work is our wages. Are the values of our production and our wages equal? To know and establish this equality is the problem of wages in the economy of the community. Inequities and misunderstanding are causes of endless conflict, instability, and chaos in our social life.

IN the economy of a free society, the individual must produce in order to consume. He is basically on his own in our complex civilization just as much as he was in the wild life of the jungle. The problem now is to establish order — to identify the true position of the individual in the process of production, to distribute the returns equitably and have the people conscious of the facts in each particular enterprise.

As sponsored by the government, the concept of our industrial relations is that people in the same company, although working in the same undertaking, consist of opposing factions and promiscuous groups contesting over division of spoils. The pattern, established by fiat, is one of conflict to exercise *opposing powers* in bargaining; "might is right." In an organization, class distinctions with different interests are incompatible. In contradiction, "labor" and "industry" are set up against each other in the community at large.

Class structure is a false theory of society because a social class is not a *social unit*. A company is a social unit. Social class denotes only social characteristics, not social functions, and class consciousness is a class feeling. Social class distinctions among the people create opposing factions which is disintegrating in an organization.

HUMAN society is much more than a collection of people of various classes but it is not an organization as a whole. It is a complex of mobile social *units*, large and small and extremely diversified. Few, if any, individuals are dissociated. Nearly all are associated in multiple unit affiliations and organizations more or less developed to meet the needs of particular interests of the people participating in them. These associations are the institutions of family, government, religion, education, recreation, etc., and social groups, as well as the industrial and business enterprises. A social *unit* is an association of individuals for united action with a common objective. People of a class or various classes may join but it, in itself, is not a social class.

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Each of these units lives in an environment much like a living organism. The environment must contain the elements for its sustenance or it ceases to exist. Most of them are dependent upon other units in the environment to obtain materials and services by purchase, exchange, or other patronage, as among business enterprises. Thus, they are largely interdependent and society is very complex but has no over-all management as in an organization. Attempts to manage it over-all have never succeeded and never will for human nature demands freedom of initiative and selection for us, as individuals, to work and live in our own various ways. Communism and other forms of pure Socialism are in contradiction.

IN the wide world, power politics is known to be the wrong basis for lasting peace in international relations and we seek "*One World*," but in our country it has been prescribed as the right basis for peace in industrial relations. This is another contradiction in thinking with which we find ourselves after World War II. Power politics is concerted exercise of bargaining power for factional self-interests. It is the only course open as long as a pattern of conflict cannot be changed to one of collaboration and

unity, but, within our own country, it has been set up as the basis of coöperation in industrial relations. Coöperation does not come out of it because it is opposite to it and industrial relations are, to a large extent, unstable.

By the nature of organization, members of a company are its beneficiaries and, therefore, allegiance to it is in their interest. In contradiction, however, this is extensively transferred from company membership to outside union membership, through the pattern of conflict, and interest in accomplishment by the company is largely disavowed. This need not be, but the idea, extensively advanced, is to *belong* to the union, and it will sell, as a commodity, the labor of its members to the company by *bargaining power*, instead of collaborating, for their functioning in mutual interest, with a company disposed to collaborate.

IN many lines of work, men are forced to belong to a union to be employed and often to do less than "the day's work," and the enterprise is forced to employ more people than ever were necessary for its production. Then, it follows that accomplishment is not the basis of wages but the basis is *cost of living*. This is seizure and the public pays until the buyers strike. A more preposterous idea could hardly



QUOTE "PUBLIC patronage of utility service has constantly increased as efficiency in company operations has constantly increased, producing more and more service at less and less cost with increasing return for company distribution to more and more creditors, job holders, and investors. These are the effects of the process of organization in private enterprise—higher and higher standards of living and social life. Efficiency pays everybody."

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be thrust upon a civilized society. We must live on the value of what we produce, not the cost of what we do not produce.

It is argued that "management" is a class of people with autocratic power which has exploited "labor" and, in self-defense, "labor" must transfer its allegiance and interest from the company to an outside power. There is no doubt that many managers and supervisors, left to their own devices in responsibility for costs, have exploited subordinates with the price theory of wages and the idea that low cost means low wages. But the practice has not been universal for a long time and does not justify a pattern of conflict sponsored by government for *industry at large*, to shift power for exploitation in reverse.

Reversing power for exploitation is no cure for the disease. Collaboration and mutual understanding are the only means to coöperation. Measures to promote these conditions are features of integration, but measures to promote power contests in a company are features of disintegration. Rule by power is not the principle of government in our way of life. Checks and balances and the Bill of Rights were written into the Constitution to protect the individual or larger minorities from tyranny which sometimes a majority will support. We must correct exploitation regardless of who may practice it. It is conduct to be controlled, not class advantage to be regulated by shifting power for favor or disfavor which is always disintegrating in community life.

THE whole idea that life is essentially a contest for *advantage* over

others in business—"One man's gain is another man's loss"—and that bargaining power and cost of living are measures of earned income is false philosophy. It contradicts the old adages, "Whatsoever a man soweth that shall he also reap" and "Fair exchange is no robbery."

Accomplishment is production; this and nothing else can ever be *earned income* to individuals and the basis of economic life in the community. A fair deal is a service to both parties in a transaction, but an organization is a unity—one party, not two, and its discussion table is basically a "round table," not one with opposite sides. Relationship is between the company and its individual members; not between classes or groups within.

It is obvious that our interest in the workaday world is for what it pays us, not only in wages in the narrow sense but also in other satisfactions in accomplishment and association. Man is a social animal. To have common interest with and recognition and esteem of others is a most powerful incentive to ambition. It couples with the urge to construct something useful or interesting to self and others and satisfaction in progress in enterprise. The satisfaction is the relaxation for the pull required.

On through the Middle Ages, hope for the future came through faith in life everlasting in heaven. But a century ago, Karl Marx substituted for this faith, the faith in a new social order here on earth by overthrow of the "capital" class by the "labor" class as the inevitable result of oppression. He said labor produces capital and all things of value, which contradicts the fact that God made our natural re-



Cost of Living Basis for Wages

"In many lines of work, men are forced to belong to a union to be employed and often to do less than 'the day's work,' and the enterprise is forced to employ more people than ever were necessary for its production. Then, it follows that accomplishment is not the basis of wages but the basis is COST OF LIVING. This is seizure and the public pays until the buyers strike. A more preposterous idea could hardly be thrust upon a civilized society."

sources and they have value in themselves. But the premise suffices for an egotistical claim, and Communism has become a religion.

YOU may have some fruit trees on your land and you claim them as your property, your inalienable right. They yield fruit and that is income from them which you also claim. The trees are capital. They are not the product of labor, neither is the fruit. "Only God can make a tree." You may, yourself, or with the help of others, cultivate the trees and promote their growth and yield. Then, human labor has a part in the production, also when this includes harvesting, packing, shipping, and marketing. Then you have developed an enterprise and divide the produce (liquidated into cash) with those who do the work. This, of course, happens in all farming operations.

The principle is the same in industry. Actually, farming is an industry. Buildings, machines, and other equip-

ment are tools in production in any enterprise. They are capital. It is true that they did not grow like the trees, but they were bought out of people's savings from prior production just as the land and trees were, and the uses they provide are the fruits which belong to the owners but are applied with labor in new production operations, making jobs for people in production. Investors of capital and employees in an organization are functional partners.

KARL MARX said, too, that reduction in cost, forced by competition in industry, always means reduction in wages. That we know, in our time, contradicts the fact that efficiency of labor and machine operations has reduced both cost and prices and, at the same time, increased wages and profits by increased sales.

Thus, standard of living has increased constantly in our country until the present time.

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We should remember too that originating, planning, and directing operations is "bourgeois" in the Marxian philosophy, rather than a part in the human work or labor as a whole in an enterprise. They are the creative activities which we call management—the head operations which give the hands their work to do. This is the over-all prime mover. But it is said to be parasitic on "labor" and, in our time and country, is said to be (in legal language) in a *different interest*. Such a contradiction seems unthinkable.

Returns per man-hour of work are different in different companies and, in spite of the price theory of wages, a common wage rate for any type of work does not exist in a community or an industry. It could not be otherwise because companies act individually in establishing initial rates and in granting, out of sufficient income, both general increases and merit increases to individuals. Figures when circulated show wide variations. This is contradictory to the theory of wages as the market price of labor—"equal pay for equal work."

The facts are confusing to many people and many managers do not understand them.

WHAT is equal pay for equal work? There is no intercompany relationship, and price is no measure. It can be only an internal relationship in every company. It is individual with regard to its own people as to what they accomplish as a company and as individuals in the company organization. To fix wages by what is paid in other companies is inequitable because that practice is no measure of what the people in our own companies accomplish, either as a whole or individually. That is the basic consideration for wages as a share in production and equal pay for equal work. External coordination and internal coordination are impossible at the same time because companies and their people have individuality.

Spiritual force of *faith in a cause* is the basis of hope for that cause. The things which people experience or feel as affecting themselves in enterprise, in government, and in all other associations either strengthen or weaken their faith for their support. Therein lies the power of leadership. Our concepts are basic and directive. They must be objective, not subjective, and faith is inspired not by talk but by action affecting the people and bringing them into the fold.

"THE most important problem facing American management today is the problem of human relationships. We must help our employees to understand and feel that they are of the American free enterprise system. To do this successfully, we must be prepared to take them into our confidence and share with them the facts about our individual businesses. With an understanding of these facts, an employee can come to feel his own importance in the process of production and can be encouraged to make his greatest contribution to success."

—WALLACE F. BENNETT,
President, National Association of
Manufacturers.



OUT OF THE MAILBAG

Regulation v. Bus Economics

JOHN F. CURTIN's article in your February 17th issue analyzing the plight of the urban bus companies was most timely and properly forceful. This problem is so vital to public welfare that it deserves further elucidation.

The fundamental error is the attitude of many of the regulatory commissions. The commissions are not bound by law to use original cost with straight-line depreciation as a rate base, yet this is too common a practice. The commission may, in New York state at least, set such a bus fare as is adequate, just, and reasonable, and, as I interpret its scope, it is not bound by any definite prescribed legal formula. The regulatory commissions now surely have the legal right if they would but exercise it to grant such relief as will give the bus company an incentive to purchase the equipment and give the service the public needs and the company desires to give. An equitable rate of fare should be found only after consideration of all relevant facts. It is unfortunately relevant that the average urban bus company today is in an unhealthy precarious condition. Public mass bus operation is a civic necessity, the very lifeblood of the existence of our communities. It is treated too much as though it were a monopoly which needed to be curbed in the public interest, when as a matter of fact it is a highly competitive business—its greatest competitors being the privately owned automobile and the taxicab. The proper definition of "public" should include the owners of capital stock and obligations as well as the bus rider, but over and beyond all it is the civic community which is served and sorely needs even better service.

IT is a relevant fact that few urban bus operations can be sold for the original cost depreciated of their physical property. The inherent risks are too great. A commission's figured "fair return" of even 10 per cent is no guaranty that the company will even make

operating expenses. I am sympathetic toward Curtin's formula but I would prefer no fixed mathematical formula. I am perhaps old-fashioned, but I still hold to the dictum that the commissions should consider all facts which have any bearing upon a proper determination of the fare. I also believe that commissions must act more promptly in granting relief. Wage increases are mostly retroactive. Increased fares lag by often a full year after retroactive wages go into effect. Prompt—even temporary—relief would tend to hold the line against actual red-ink confiscation during the lag period. These companies most of all need sympathetic and constructive consideration of their problems—of their desire to give the best of service to the greatest extent practicable.

I am sending you this short note not with the thought that I have solved any problem but with the desire to see the subject more thoroughly explored. Probably my most important point is that unless these companies have more sympathetic and constructive treatment, they are not going to continue to function even as they are doing today in spite of their unfair handicaps.

Please also appreciate that I have not intentionally maligned any regulatory commissioner, many of whom are my personal friends, but the whole national situation is so serious and appalling that it deserves and must have their full appreciation of all the pertinent facts. I hark back to my statement that there is still too much of a tendency to treat this industry as a monopoly to be curbed. The commissions too often point with pride to their assumption that by not granting the needed relief they have saved the voting bus riders all of one and one-half cents per ride. The industry should be regulated but confiscatory regulation (too little and too late) such as is today too prevalent, spells but disaster to the civic community.

—WILLIS H. SAWYER,
Executive engineer,
New York, New York

"THERE isn't a city in the United States that is not in a financial strait jacket through the lack of representation in state legislatures. A rural oligarchy, dominating the legislatures, also controls the cities."

—GEORGE W. WELSH,
President, United States
Conference of Mayors.

Washington and the Utilities



Natural Gas Hearings

ALTHOUGH there was little expectation on the Washington scene that the 81st Congress would get around to amending the Natural Gas Act—at least during its first regular session—some important spade work on amendatory bills was done by a subcommittee of the House Interstate and Foreign Commerce Committee, headed by Representative Oren Harris (Democrat, Arkansas). This committee held hearings early in April on at least three bills designed to ease the threat of Federal Power Commission regulation which independent producers and gatherers of natural gas claim is hamstringing industrial operations.

Principal witness was Representative Lyle (Democrat, Texas), author of a bill (HR 79) to amend the act by spelling out a restriction against the exercise of any FPC jurisdiction over the independent producers and gatherers. A similar bill by Chairman Harris (HR 1758) and a bill from the other side of the aisle by Representative Dolliver (Republican, Iowa) dealt with the same subject, although Dolliver's bill also would give the FPC the right to restrict "end use" of natural gas.

Following the Easter recess, FPC witnesses were slated to be heard by the Harris group. An FPC majority of Commissioners Olds, Draper, and Buchanan was expected to oppose any change in the present law. Chairman Smith and Commissioner Wimberly have indicated a disposition to approve limited changes.

LYLE told the subcommittee he did not care whether his bill or the Harris Bill got the green light, just so some-

thing got started. He gave reasons why he thinks the problem has become a pressing one since the U. S. Supreme Court decision on June 16, 1947, in the Interstate Natural Gas Company Case (69 PUR NS 1). Lyle said the present uncertainty stems from the fact that, despite its voluntary disinclination to regulate the independent producers, this decision permits the FPC to do so any time it feels like it. Lyle wants an act of Congress to spell out the limitation.

Because of the present uncertainty, he charged there has been considerable flaring of gas, drainage of reserves, failure of royalty owners to obtain benefit from the sale of their gas, and in some cases the loss by the producer of his leases, and a widespread slow-down of drilling activities to explore for new and develop old gas reserves.

The reason for this, he added, is that a producer cannot afford the risk of being allowed a return of 6 per cent on the depreciated cost of a producing well when it may have been preceded by several dry holes.

Estimating that at least 90 per cent of all contracts entered into in recent years between independent operators and the pipe lines have contained escape clauses, Mr. Lyle declared:

Whether such escape clauses offer the producer any real protection, I do not know. If jurisdiction actually had attached as a matter of law under the Natural Gas Act by virtue of sales by the producer to the interstate pipe-line company, I think it is likely that such sales cannot be discontinued without permission of the FPC. But I do know that the very inclusion of this escape clause in these contracts evidences the

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great fear of the producer that Order 139 (the commission's policy announcement) may be rescinded one day by the FPC, and I further know that there can be no security in this regard until Congress restores the original intention of the Natural Gas Act by clarifying the status of the independent producer and gatherer making arm's-length sales of his gas.

B. A. HARDEY, independent producer of Shreveport, Louisiana, in urging enactment of the Lyle-Harris proposal, told the subcommittee that "It is most important the Federal public utility control of the interstate pipe lines must not be permitted to destroy the vitality and financial soundness of the producers of gas. The course of the FPC under its program of extending its jurisdiction improperly into the production and gathering of gas is having this dangerous effect. It is inevitable that in the end not only will the producer suffer but that the consumer will be denied the availability of this highly desired fuel."

The producing branch of the industry, he said, has none of the protection of a public utility, and the risks involved are so great and so different from a public utility that it cannot survive and be regulated as a public utility.

Hayden W. Head, counsel for Southern Minerals Corporation of Corpus Christi, Texas, expressed the belief that the U. S. Supreme Court in the Interstate Case went even further than the FPC had intended. Representative Keogh (Democrat, New York) wanted to know why there should be any different treatment of independent operators as distinguished from natural gas companies who did their own production. Head was of the opinion that Congress intended to exclude both but that it failed to confirm this intention when it did not follow through on the Rizley Bill, which the House approved but the Senate failed to pass in the 80th Congress.

Head also explained to Representatives Heselton (Republican, Massachusetts) and Hale (Republican, Maine) how royalty owners would suffer if FPC

would assert jurisdiction over the independents, and reduce the price at which they sold their gas to interstate lines, stating that the royalty owner gets a percentage portion of the price at which the gas is sold.

Questioned by Representative Wolverton (Republican, New Jersey), Mr. Head declared that the fears of the independents, should the FPC ever assert jurisdiction over them, run not only to the question of price, but also to the possibility that the commission would cause the independents to extend their operations, keep voluminous records, and submit various reports to the FPC (which would be, he said, almost an impossibility for the little fellows), cause them to get approval for any abandonments they thought desirable, and might prescribe the use which could be made of the gas they produced. In effect, he said, the independent producer would be reduced to the status of a utility and, he added, the gas production business cannot be conducted on a utility basis and survive.

REPRESENTATIVE Dolliver, who testified as the hearings opened, outlined the provisions of his bill and said he was not wedded to the language of it but thought it provided "a starting place for consideration" of what policy should guide the commission in administering the act. He said he thought his bill would "clarify policy" rather than "modify policy," adding that there appears to have been considerable confusion as to the area of FPC jurisdiction.

His bill, among other things, proposes the conservation of gas for "the highest social benefits," would give current users a prior claim to additional quantities which might be made available, would give priority to pressure maintenance as a use of gas, and prevent the FPC from having jurisdiction over independent production and gathering.

Over on the Senate side, the two Democratic Senators from Oklahoma, Kerr and Thomas, have introduced a joint bill (S 1498) to carry out about the same objectives as the Lyle and Harris bills in the House.

WASHINGTON AND THE UTILITIES

Truman's CVA Bill

WHILE eighteen Senators were preparing to cosponsor a bill to carry out the intent of President Truman's recent message on the need for a Columbia Valley Administration, a lone Republican jumped the gun and got the same bill into the hopper ahead of the rest. He is Senator Cain of Washington, whose bill (S 1631) is the same in all respects as the bill later introduced by his Democratic colleague, Senator Magnuson of Washington, and fifteen other "pro authority" Democratic Senators, plus two Republicans (S 1645).

Quibbling though the procedure may seem to the outsider, this forthright action annoyed the administration to the extent of holding up reference of Cain's bill to the Public Works Committee until after the multiple-sponsored bill had been referred. Even so, the usual committee procedure is to give consideration to the lowest number in case of identical bills. But the problem of avoiding the embarrassment of having the President's wishes carried out by a Republican Senator's measure is likely to prove academic anyhow.

The reason for this is that Senator Chavez (Democrat, New Mexico), chairman of the Senate Public Works Committee, and one of the cosponsors of the Magnuson Bill, will probably refer it to a subcommittee regarded as hostile to authority legislation. Chavez did the same thing to the earlier bill by Senator Murray (Democrat, Montana) on the Missouri Valley Authority, causing anguished complaints from such stout MVA advocates as the *St. Louis Post-Dispatch* that Chavez is a false friend of this legislation.

OVER on the Senate side, two Fair Deal Democratic Representatives, Mitchell and Jackson of Washington, introduced their versions of the bill (HR 4286 and 4287) without Republican competition. The bill is opposed to combining the efforts of such presidential advisers as the administrative assistant, Charles S. Murphy, Assistant Secretary of Interior

Davidson, Representative Mitchell, and other congressional advocates.

The bill would set up a "Columbia Valley Administration," the term espoused by President Truman in an evident attempt to throw overboard any unpleasant connotation which might have developed to the use of the word "authority." The new CVA would be a Federal corporation of three presidentially appointed directors. It would consolidate all functions now performed by the Reclamation Bureau, Bonneville Administration, Army Engineers (except harbor improvement work), and allegedly would create no new authority not now exercised by such Federal agencies. Otherwise, the new CVA bills seem to shape up about the same as to policy and procedure as existing Federal statutes dealing with public power. Preference in the sale of power to public agencies and methods (other than by condemnation) for the acquisition of "private" utility systems for resale to such public bodies are included in the bill's provisions. The bill contains several window-dressing devices designed to appease "home rule" sentiment.

Thus two of the directors would have to be residents of the Columbia valley basin, headquarters would have to be located there, and there is much ado in the bill about the CVA taking the advice of a "council" representing all local interests, including business, labor, and farm groups. Actually, all policy-making authority would be exercised by the three members of the administration, who would be given discretion to be either as "local minded" or as "Washington minded" (to use the terms bruited about in such discussions) as they might see fit.

Indeed, if the personnel of the present Reclamation Bureau and Bonneville Administration were to be incorporated as part of the new staff along with projects, contracts, property, and budgets of the Federal agencies to be absorbed, the chances are that Secretary of Interior Krug and Reclamation Commissioner Straus would still have important persuasive voices in CVA affairs.



Exchange Calls And Gossip

Bell System Financing and Rates

WHILE announcing the largest corporate financing on record, Leroy A. Wilson, president of the American Telephone and Telegraph Company, also told the public what his company has in mind with respect to further rate increases.

At the recent stockholders' meeting approval was given for the issuance of \$395,000,000 of debenture bonds convertible into common stock beginning September 1, 1949. The bonds are being offered to present stockholders; one bond for each six shares of stock.

As to rate increases in the postwar period, Mr. Wilson said the amount already granted, plus the total amount for which applications are now pending, comes to less than 20 per cent of revenues. He added, however, that additional applications for advances will be necessary in the future. Qualifying this remark he said: "But assuming no further rise in costs we are hopeful that these can be held to a minimum, and that in the long run the over-all increase in telephone rates in this postwar period will amount on the average to only a penny or so per call."

Summarizing the rate situation, Mr. Wilson said:

Since 1946, when the first requests for higher rates were made by the Bell system companies, increases totaling \$218,000,000 annually have been authorized or made effective. You will note that this is a great deal less than the increase in expense of over \$380,000,000 a year resulting from postwar wage increases alone. The companies have applications pending for addi-

tional increases in rates amounting to about \$230,000,000 annually and other applications will be made. This is necessary because we must not only meet the increased cost of labor and materials and the depreciation charges on the higher investment, but must also pay to investors a reasonable return on the almost doubled amount of capital needed to provide service.

In order to meet expanding demand for telephone service, the Bell system has increased its capital from slightly more than four billion dollars at the end of the war to nearly seven billion dollars today. At the beginning of the period there were 22,000,000 telephones, and now there are 32,000,000 in service.

Woman on Board

NO stockholders' meeting these days is complete without some excitement. At the recent meeting of stockholders of the American Telephone and Telegraph Company this excitement was provided by a lady campaigning for the inclusion of a woman on the board of directors.

She requested all members of the board present to give their views on her often-repeated recommendation that women be represented on the board of directors. Members of the board showed some interest in the request. However, the tenor of most answers was that in the selection of a new member for the board the stockholders should pick a person, man or woman, best qualified for the job.

Mrs. Wilma Soss was the stockholder who brought up the question. She is a founder of the two-year-old Federation

EXCHANGE CALLS AND GOSSIP

of Women Shareholders in American Business.

AT&T President Leroy A. Wilson presided over the meeting, which was held at the general offices of the company, 195 Broadway, New York city.

Bell System Pensions

METHODS of employee protection adopted by the Bell system companies thirty-six years ago have demonstrated their value to hundreds of thousands of telephone workers. Benefit and pension plans initiated in 1913 represent one of the most important efforts of industry to provide help to meet numerous personal needs.

Charles J. Schaefer, Jr., of the American Telephone and Telegraph Company, is an authority on the subject, being the secretary of the employees' benefit committee of AT&T. He explains that the plan is "noncontributory" — meaning that the entire cost is borne by the company.

Here are some of the facts related by Mr. Schaefer in an article reprinted from the summer (1948) issue of *Bell Telephone Magazine*:

During the first year of the plan's operation, the Bell system companies, including Western Electric, paid out \$1,153,128 for all the purposes covered by the plan.

In the thirty-fifth year of the plan's operation, 1947, the amount was \$148,820,000. That sum was about 8 per cent of the system's payroll.

During the thirty-five years ending December 31, 1947, the total paid out under the plan has been \$1,006,755,995. (Pensions disbursed and payments to pension trust funds amounted to about 72 per cent of the total, the remainder being accounted for by payments for sickness, accident, death, and disability.)

Mr. Schaefer explains that pensions should be provided in reasonable amounts, but not in amounts "so great as to make their continuance uncertain

nor to make the over-all cost of the pension plan extravagant in the eyes of the public."

THE 1948 annual report of AT&T states that about \$175,500,000 was expended by the Bell system, including Western Electric Corporation and Bell Telephone Laboratories, during that year for sickness, accident, and death benefits to employees or their dependents, for disability pensions, for payments into pension trust funds, and for Social Security old-age benefit purposes.

The plan is maintained by the companies without any direct cost to employees, and during thirty-six years of operation its continuing value has "been fully demonstrated."

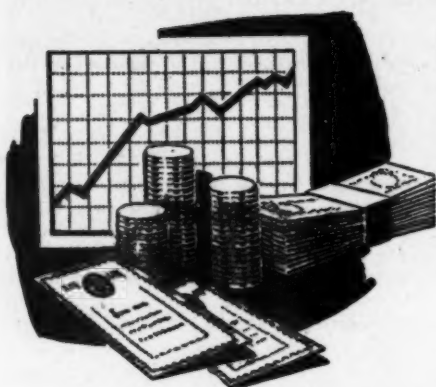
The plan is important to the business in maintaining its efficiency and is advantageous to employees through the aid it affords in helping to meet the financial problems associated with sickness, accident, and death, and in providing pension payments upon retirement.

The pension trust funds of the Bell system companies, including Western Electric and Bell Telephone Laboratories, amounted to \$955,642,000 at the end of 1948. There were 12,523 men and 7,926 women on the service pension rolls at the end of the year.

Payments under the plan in 1948 to the pension trust funds and to about 119,000 employees and dependents of employees, and payments by the companies to the Federal government for old-age benefit purposes under the Social Security Act amounted to 8.7 per cent of the payroll, distributed as follows:

Pension funds	\$125,800,000
S. S. old age	16,600,000
Sickness	25,848,000
Accident	1,605,000
Death benefits	4,303,000
Disability	1,363,000
Total	\$175,519,000

Some state public regulatory commissions have shown interest in the operation of the plan because of its relation to telephone company operating costs.



Financial News and Comment

By OWEN ELY

January Earnings

THE Federal Power Commission has been a little slow this year in releasing the earnings figures for the month of January for all Class A and B electric utilities, but the figures are now available, with some new statistics added. The commission's chart is published on page 637, and selected figures are also shown in the table "Current Utility Statistics and Ratios," page 640. The January figures are favorable, though not up to the splendid showing of December. The number of customers (new data)* increased about 5 per cent in January, kilowatt-hour sales 7 per cent, revenues 9 per cent, net income 12 per cent, and the estimated balance for common stock 12 per cent (compared with 17 per cent in December).

January earnings were of course favored by greatly improved hydroelectric conditions, as well as by the warm winter which permitted greater use of natural gas for boiler fuel. Thus fuel costs were only 4 per cent over the previous year although during part of 1948 the increases ran as high as 30-40 per cent. On the other hand taxes showed a gain of 14 per cent as compared with less than 9 per cent in the twelve months ended January 31st. Interest on long-term debt, up 17 per cent, is also becoming a more important factor, reflecting the heavy amount of debt financing for

construction and to retire temporary bank loans.

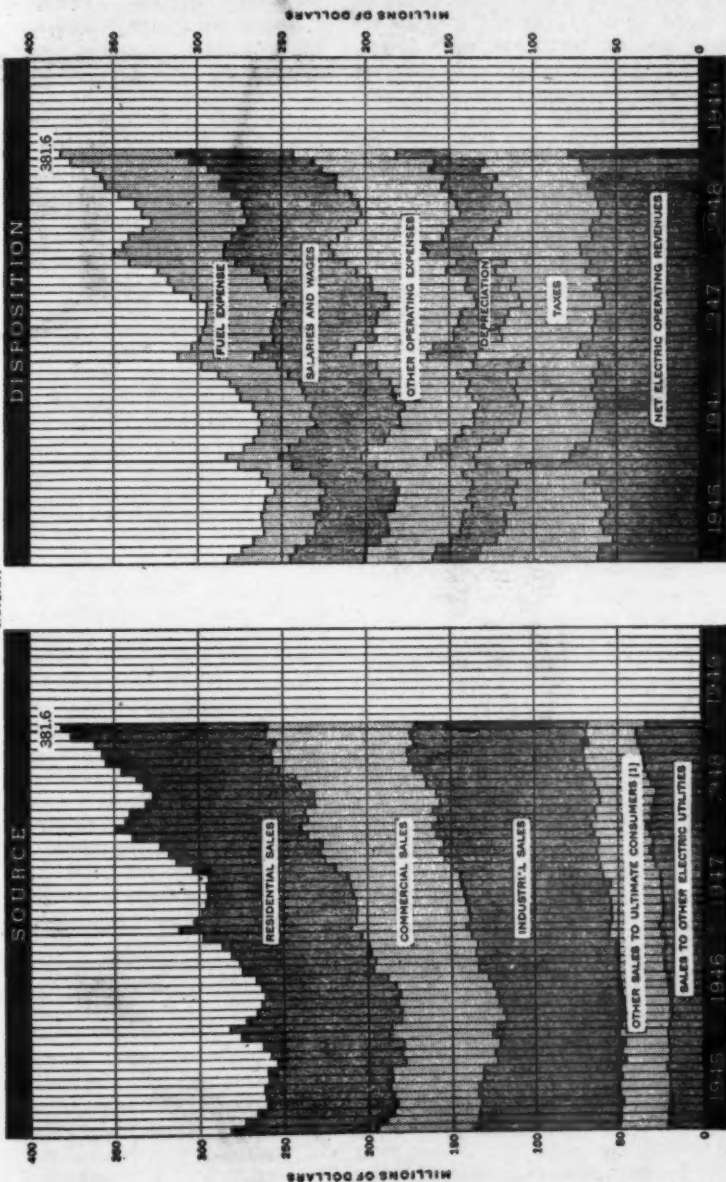
THE bulletin also contains new figures showing total electric utility plant, the reserve for depreciation and amortization, and net electric plant. Apparently these figures are now being compiled on a monthly basis and should prove very valuable to the industry. Total electric plant is now \$15.6 billion, the reserve \$3.4 billion, and net plant \$12.2 billion. In the twelve months ended January 31st, the utilities earned about \$800,000,000 electric utility operating income. Taking the average plant investment (mean of the January 31, 1948, and January 31, 1949, figures) and adding 5 per cent for estimated working capital, we obtain a "rate base" of \$12.2 billion. In relation to this figure operating earnings showed a "fair return" of 6.6 per cent for the period.

However, some \$2-\$3 billion has probably been written off the books under government orders, a considerable part of which represents funds actually placed in the properties by investors. This investment would reflect larger values than "original cost when first constructed" because of increased efficiency obtained through integrating many individual properties and pooling their power reserves, the natural increment in land values, higher costs of construction, etc. If an estimated \$2 billion is added to reflect this investment picture the return is reduced to 5.7 per cent. If adjustment

*The Edison Electric Institute also publishes similar monthly statistics on customers.

CLASSES A AND B PRIVATELY OWNED ELECTRIC UTILITIES IN THE UNITED STATES SOURCE AND DISPOSITION OF ELECTRIC OPERATING REVENUES

JANUARY



(1) Includes, in addition to revenues from sales of energy, other miscellaneous electric operating revenues.

PUBLIC UTILITIES FORTNIGHTLY

should be made for cost of reproduction, it is probable that the rate base would be increased 50 to 100 per cent and the return would be correspondingly lower. The state of Ohio recognizes cost of reproduction as a major factor in the rate base while a number of other states consider it along with other factors, under the old *Smyth v. Ames* dictum of the Supreme Court.

Wall Street Views

THOMSON & MCKINNON has issued a 6-page bulletin on *Consolidated Edison*. It points out that there are already 500,000 television sets in New York city and that this may increase to 1,000,000 within a reasonably short time; "this added future source of revenue, which will probably rise steadily, should more than offset any decline in other business which might come about through smaller sales to industrial and commercial users." The firm thinks that even if the electric rate reduction should finally be upheld by the New York courts the company can earn about \$2 a share this year. (The question is due for hearing before the appellate division in May, although the court of appeals recently reversed the lower court in the matter of a temporary "stay" of the lower rates.) It estimates that this can be effected (despite the added burden of a wage increase) through lower operating costs and smaller maintenance expenditures, since deferred maintenance has probably now been pretty well taken care of.

The firm points out that at the recent price of 22 the stock yields 7.3 per cent and is selling at a large discount from the book value of \$40.93. (The latter figure, of course, does not recognize the possibility that book adjustments desired

by the public service commission might eventually be made.) It also considers the proposed acquisition of Long Island Lighting as a favorable factor. If the electric rate cut is rejected by the courts it foresees earnings of as much as \$2.75 to \$3 a share, and possibly a \$2 dividend.

FIRST BOSTON has again published its annual tabulation of 78 electric utility operating company common stocks, showing various statistical data and ratios. It is interesting to compare the various ratios such as "dividend as per cent of earnings" and "common equity" and to speculate as to their effect on yields. Where the common equity is high as with such companies as Boston Edison, Cleveland Electric Illuminating, Commonwealth Edison, Detroit Edison, and the Connecticut utilities, yields are apt to be lower than average. However, where the dividend pay-out is very high as in the case of Boston Edison, this is apt to make for a higher yield.

Goldman, Sachs & Co. has issued a lengthy analysis of *North American Company* in which it arrives at a break-up value of \$24 a share. Union Electric of Missouri, which makes up nearly two-thirds of this value, is appraised at 11½ times estimated 1949 earnings. Herzfeld & Stern also has prepared a 2-page study on *North American* in which it estimates break-up value at \$22.42; Union Electric and Missouri Power & Light (the latter is to be donated to Union Electric) are valued on a combined basis at \$14 per share of *North American* stock. Estimates are based on 1948 earnings.

H. Hentz & Co. has analyzed *American Power & Light* and arrived at the following values:

	Recent Price	Possible Price Range	
		7½-8 Per Cent Yield (Unseasoned)	7 Per Cent Yield (Seasoned)
\$6 Preferred	91	98½-104½	112
\$5 Preferred	77	81½- 87½	93½
Common Stock	10	11½- 12	12½

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The firm concludes that "there is only a limited percentage appreciation in prospect . . . particularly for the two classes of preferred. . . . However the plan appears very likely to go through in rather rapid order and some degree of appreciation is strongly indicated over a period of time."

LAURENCE C. COOPER of Argus Research Corporation has prepared memoranda on New York State Electric & Gas, Wisconsin Electric Power, Detroit Edison, and a 7-page story on the natural gas industry, including brief comment on a number of companies. With *New York State Electric & Gas* then quoted at 44, he considered it an "attractive replacement" for several other issues, and estimated that earnings might rise to as high as \$5 a share in 1950-51. He also gave a favorable report on *Wisconsin Electric Power* based on anticipated earnings of \$1.60 on the new shares in 1949, and higher profits over a longer term.

The review of *Detroit Edison* points out that the company is installing 200,000 kilowatts in 1949 and 200,000 in 1951. Peak demands have increased nearly 400,000 kilowatts since 1943 compared to an increase in capacity of only 75,000 kilowatts. Expenditures for construction may exceed \$150,000,000 during 1949-52, including about \$50,000,000 in 1949. Of the total amount one-half can be provided internally, including cash on hand; the remaining \$75,000,000 can probably be taken care of through debt financing, which would leave the debt ratio around 50 per cent. If no debenture 3s are converted, the equity ratio would be around 41 per cent by the end of 1951, but if there is full conversion then common stock and surplus would be 51 per cent. While stock financing may be avoided, the company has obtained stockholder approval to increase its authorized shares from 10,000,000 to 15,000,000. It is possible that additional convertible debentures might be issued instead of common, since the company had successful experience with this kind of financing both currently and in the twenties.

Even with more shares outstanding, earnings are expected to support them. Last year's rate of return was only 4.3 per cent (before rate increases were granted) and 5.25 per cent after the increases. Success of any appeal to the courts against the new rates is considered doubtful. While no increase in the regular \$1.20 dividend rate is expected despite higher earnings, the yield might be improved by extras or rights (if convertible debentures or common are sold).

IN a general view of the utility picture Argus Research states:

A rise of 25 per cent or more of industry earnings for the common is possible during the next few years, which should more than offset the dilution from the sale of additional common shares. The electric utility industry is now entering a period, for the first time in many years, during which earnings can increase considerably (without aid of such outside factors as declining money rates) and still represent a reasonable rate of return. Altogether, we believe the long-term earnings outlook for utilities is the best for many years and that, if a recession similar to 1938 should develop reasonably soon, it would only serve to defer for a year or so the above-mentioned upward earnings trend. The text of recent commission decisions in Michigan and Maryland reveals recognition of the need for adequate earnings to attract new capital, including common stock.

Josephthal & Co. has issued an analysis of *Interstate Power Company*. It considers that, while the stock cannot be given a high investment rating because of its heavy debt and large expansion requirements, these factors were quite fully discounted at the recent price of 7½. An increase of earnings to \$1 a share is forecast, and the liberal yield of 8 per cent and the long-term appreciation possibilities (which may be realized as the present expansion program progresses and economic conditions in the territory

PUBLIC UTILITIES FORTNIGHTLY

improve) are mentioned as favorable factors.

Andrew J. Heldrich of Reynolds & Co. has issued a 4-page story on *Atlantic City Electric*. The stock of the company is now entirely in the hands of the public,

American Gas & Electric having completed the distribution of its holdings. The study points out that the company serves an unusually well-balanced territory, including resort area along the coast line, a farm and food processing area in



CURRENT UTILITY STATISTICS AND RATIOS

	Unit Used	Amount Latest Month	Latest 12 Mos.	Per Cent Increase Latest Month	Latest 12 Mos.
Operating Statistics (February)					
Output KWH—Total	Bill. KWH	23.0	285.0	4%	9%
Hydro generated	"	7.3	—	15	—
Fuel generated	"	15.7	—	—	—
Capacity	Mill. KW	57.3	—	—	—
Customers, number of	Mill.	41.0	—	6	—
Fuel Use: Coal	Mill. tons	7.4	—	8	—
Gas	Mill. MCF	30.7	—	9	—
Oil	Mill. bbls.	4.7	—	16	—
Coal Stocks	Mill. tons	26.6	—	58	—
Sales, Revenues, and Rates (January)					
KWH Sales—Residential	Bill. KWH	4.3	40	12%	14%
Commercial	"	3.0	34	8	12
Industrial	"	9.1	107	6	9
Total, incl. misc.	"	22.7	253	7	9
Revenues—Residential	Mill. \$	123	1,233	11	12
Commercial	"	87	959	9	12
Industrial	"	104	1,206	10	12
Total, incl. misc. sales	"	377	4,138	9	12
Revenues and Income (January)					
Elec. Rev., incl. misc. rev.	Mill. \$	381	4,197	9%	12%
Misc. Income	"	10	119	6	—
Expenditures (January)					
Fuel	"	69	777	4%	27%
Labor	"	69	816	9	11
Misc. Expenses	"	62	741	7	15
Depreciation	"	31	358	6	7
Taxes	"	71	709	14	9
Interest	"	19	214	11	12
Amortization, etc.	"	2	28	D25	D43
Earnings and Dividends (January)					
Net Income	"	67	672	12%	5%
Preferred Div. (est.)	"	8	98	4	2
Bal. for Common Stock (est.) ..	"	59	574	12	6
Common Dividends (est.)	"	36	393	2	4
Balance to Surplus (est.)	"	23	181	37	12
Utility Financing (March)*					
Bonds	"	350	—	D48%	—
Stocks	"	72	—	90	—
Total	"	422	—	D40	—
Life Insurance Investments (January 1st-April 25th)					
Utility Bonds	"	—	199	—	D45%
Utility Stocks	"	—	4	—	D46
Total	"	—	203	—	D45
Per Cent of All Investments	"	—	13%	—	D31

D—Decrease. *Data for all utilities (electric, gas, telephone, etc.), including refunding issues.

FINANCIAL NEWS AND COMMENT

the center, and an industrial section along the Delaware river. Major industrial customers are DuPont, Owens-Illinois Glass, and Anchor Hocking Glass. The company is one of a relatively few which has a satisfactory margin of reserve generating capacity. Dividend pay-out is generous (about 83 per cent). Capital ratios approximate 53 per cent debt, 14 per cent preferred, and 33 per cent common (with plant account on an original cost basis). As the 1949 construction program is small, requiring only about \$1,500,000 of new money, this can be raised through senior financing if desired. The company's accounting policy is conservative (reflecting former American G&E management).

GOODBODY devoted most of its monthly market letter of March 29th to utilities, under the heading "Peak Plant Additions Improve 1949 Electric Utility Outlook"; following is a digest of the story, which was written by Theron W. Locke. The electric companies expect to add more new plant and equipment this year than the total additions since VJ-Day—6,800,000 kilowatts. The largest benefit to earnings may be shown this year, since new equipment should replace the oldest and least efficient plant.

At the end of 1948 about 1.25 pounds of coal were being consumed to produce one kilowatt hour, compared with 1.90 pounds in 1926, 1.40 pounds in 1935, and 1.31 in 1947. By 1951 the figure may be down to 1 pound. Since fuel expenditures in 1948 exceeded net income, a saving of 20 per cent from greater efficiency, plus additional savings as fuel costs decline, could improve net income very materially.

Wages are also being reduced, Mr. Locke points out, since new utility plants require about only half as many men to operate as do plants twenty years old. One plant which is increasing its capacity 50 per cent expects to increase its labor force only 15 per cent. Total wages last year were \$809,000,000, so that changes in unit labor costs can prove important.

The electric utilities do not expect to go back to a 25-30 per cent reserve capacity, but think that with the present degree of interconnection 10-15 per cent should prove adequate. This would mean that relatively less investment per kilowatt hour would be required than in pre-war years.

Fuel costs rose 31 per cent in 1948 on top of a 41 per cent gain in 1947; the rise in labor costs was more reasonable—17 per cent and 11 per cent, respectively. Wage costs are expected to become stabilized this year. The decline in the price of fuel oil has been sharper than for coal, but recently one of the big soft coal producers cut prices 15 cents to 40 cents a ton and it is expected that other companies may follow; moreover the quality of coal has improved. Oil is now again cheaper than coal, and furnaces are being equipped to burn either fuel.

REGARDING rates, over 60 electric utilities requested rate increases last year, most of which were granted in whole or part. As other companies realize that they are not earning an adequate return on their rapidly increasing capital, additional applications will have to be made. Regulatory bodies have proved generally coöperative. The average residential rate dropped steadily from 7 cents per kilowatt hour in 1926 to 3 cents in 1948, but industrial users are now paying a little more than in 1947-8.

Rate increases are not expected to have any retarding effect on the continued growth of sales which should increase materially. Electricity is the cheapest item in the household budget. The present reversal in the downward trend of residential rates might last two or three years, but once the construction program through 1951 is completed the utilities might again resume their policy of reducing rates, Mr. Locke thinks.

About half of present capacity is reported to be twenty years old or older, and is relatively inefficient; until capacity is increased about 50 per cent in 1951 (over 1946) full savings from the use of new equipment will not be realized.

PUBLIC UTILITIES FORTNIGHTLY

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

	4/20/49 Price About	Indicated Dividend Rate	Approx. Yield	Shares 12 Mos. Ended	Earnings Current Period	Previous Period	% In- crease	P-E Ratio
Telephone Companies								
<i>Bell System</i>								
S Amer. Tel. & Tel.	144	\$9.00	6.3%	Feb.	\$9.45	\$7.69	23	15.2
O Cinn. & Sub. Bell Tel.	68	4.50	6.6	Dec.'48	3.76	3.85	D5	18.1
C Mountain States T. & T. ...	100	6.00	6.0	Dec.	8.31	2.95	182	12.0
C New England Tel.	81	5.00	6.2	Dec.	4.59	4.26	8	17.6
S Pacific Tel. & Tel.	95	6.00	6.3	Feb.	6.07	2.78	118	15.7
O So. New England Tel.	122	6.00	4.9	Dec.	8.86	3.76	136	13.8
Averages			6.1%					15.4
<i>Independents</i>								
C Associated Tel. A.	20	—	—	—	—	—	—	—
S General Telephone	25	\$2.00	8.0%	Dec.'48	\$2.39	\$1.50	59	10.5
C Peninsular Tel.	43	2.50	5.8	Dec.	5.66	5.25	8	7.6
O Rochester Telephone	10	.20	2.0	Dec.	.80	.47	70	12.5
Transit Companies								
O Baltimore Transit	3	—	—	—	—	—	—	—
O Capital Transit	17	\$.50	2.9%	Dec.'48	\$1.63	\$D.38	—	10.4
O Chic. S. S. & S. B.	8	1.00	12.5	Dec.	1.40	1.38	1	5.7
O Cincinnati St. Ry.	6	.30	5.0	Dec.	.77	1.57	D51	7.8
O Dallas Ry. & Term.	11	1.40	12.7	Dec.	2.27	3.39	D33	4.8
O Duluth Sup. Tran.	9	1.00	11.0	Dec.	.44	2.75	D84	20.5
O Kansas City P. S.	1 1/2	—	—	—	—	—	—	—
O Los Angeles Transit	4	.50	12.5	Dec.	.93	.87	7	4.3
S National City Lines	7	.50	7.0	Dec.	1.97	1.57	25	3.6
O Phila. Transit	4	—	—	Dec.	1.03	.31	232	3.9
O Rochester Transit	4	—	—	—	—	—	—	—
O St. Louis Pub. Ser. A.	5	.50	10.0	Dec.'48	.70	.37	89	7.1
O Syracuse Transit	22	3.00	13.6	Dec.	1.40	3.52	D60	15.7
S Third Ave. Transit	4	—	—	—	—	—	—	—
S Twin City Rapid Tr.	7	—	—	Dec.	.39	.62	D37	17.9
O United Transit	3	—	—	Dec.	.13	.21	D38	23.1
Averages			9.7%					10.4
Water Companies								
<i>Holding Companies</i>								
S Amer. Water Works	8	\$.60	7.5%	Dec.	\$.88	\$.84	5	9.1
O N. Y. Water Service	30	1.00	3.3	Dec.	4.54	3.40	34	6.6
O Northeastern Water	12	—	—	Sept.	.34	.52	D35	35.3
<i>Operating Companies</i>								
O Calif. Water Service	28	\$2.00	7.1%	Dec.	\$2.48	\$2.70	D8	11.3
O Elizabethtown Water	113	6.00	5.3	Dec.	6.89	7.33	D6	16.4
S Hackensack Water	32	1.70	5.3	Dec.	2.79	3.08	D9	11.5
O Indianapolis Water	17	.80	4.7	Dec.	1.42	1.19	19	12.0
O Middlesex Water	60	3.00	5.0	Dec.	4.94	5.71	D13	12.1
O New Haven Water	59	3.00	5.1	Dec.	3.61	3.34	8	16.3
O Ohio Water Serv.	20	1.50	7.5	Dec.	2.29	2.21	4	8.7
O Phila. & Sub. Water	20	.80	4.0	Dec.	3.01	2.70	11	6.6
O Plainfield Union Water ...	68	4.00	5.9	Dec.	5.02	4.74	6	13.5
O San Jose Water	31	2.00	6.5	Feb.	2.71	2.38	14	11.4
O Scranton-Spring Brook ...	10	.70	7.0	Sept.	.87	.91	D4	11.5
O Stamford Water	53	2.00	3.8	Dec.	2.21	2.27	D3	24.0
O West Va. Water Serv.	13	1.00	7.7	Dec.	1.39	1.46	D5	9.4
Averages			5.8%					12.7

D—Deficit. E—Estimated. C—Curb Exchange. O—Over-counter or out-of-town exchange.
S—New York Stock Exchange.

FINANCIAL NEWS AND COMMENT

PRINCIPAL PUBLIC OFFERINGS OF UTILITY SECURITIES FEBRUARY 1, 1949, TO APRIL 24, 1949

Amount Date-Mill.	Description	Price to Company	Price to Public	Gross Spread	Syndicate Manager
Mortgage Bonds					
2/3 \$10	Kentucky Util. 1st 3½s 1979	100.89	101.54	.65	Kidder, Peabody
2/3 5	Union Lt., Heat & Pr. 1st 3s 1979	101.69	102.39	.70	Halsey, Stuart
2/16 40	Duke Power 1st Ref. 2½s 1979	100.80	101.31	.51	Halsey, Stuart
2/17 6	Monongahela Pr. 1st 3½s 1979 ..	102.14	102.46	.32	Equitable Sec.
2/25 3	Calif. Elec. Pr. 1st 3s 1978	99.52	100.00	.48	Halsey, Stuart
2/25 7.5	Rockland Lt. & Pr. 1st 3½s 1978 ..	101.58	102.25	.67	Halsey, Stuart
3/2 10	North. Sts. Pr. (Wis.) 1st 3s 1979 ..	102.20	102.75	.55	Halsey, Stuart
3/2 2	Worcester Gas Lt. 1st 3½s 1969 ...	100.52	101.47	1.05	Halsey, Stuart
3/9 4	Minnesota Pr. & Lt. 1st 3½s 1979 ..	102.10	102.46	.36	Shields & Company
3/10 10	West Penn Pr. 1st 2½s 1979	100.71	101.10	.39	Halsey, Stuart
3/16 5	Gen. Maine Pr. 1st & Gen. 3s 1979 ..	100.21	100.79	.58	Salomon Bros.
3/23 10	Wis. Elec. Pr. 1st 2½s 1979	100.91	101.38	.47	First Boston
3/24 3	Gulf Power 1st 3s 1979	100.11	100.56	.45	Halsey, Stuart
3/30 10	Dallas Pr. & Lt. 1st 2½s 1979	100.91	101.38	.47	Kidder, Peabody
4/13 2	Miss. Pr. 1st 3s 1979	100.10	100.50	.40	Otis & Co.
4/13 10	Ohio Pub. Ser. 1st 3s 1979	100.34	100.75	.41	Equitable Sec.
Debentures					
3/16 20	Columbia Gas System Deb. 3s 1974 ..	100.06	100.70	.64	Morgan Stanley
3/24 35	New Eng. Tel. & Tel. Deb. 3s 1974 ..	100.10	100.75	.65	Halsey, Stuart
4/5 10	General Tel. Deb. S. F. 4s 1964 ...	100.25	102.25	2.00	Paine, Webber
4/13 25	Bell Tel. of Pa. Deb. 3s 1974	101.42	101.77	.35	Kuhn, Loeb
4/13 50	Commonw'h Ed. S. F. Deb. 3s 1999 ..	100.53	101.30	.77	First Boston
Preferred Stocks					
2/16 2	Calif. El. Pr. 5.60% Conv. Pref. .	18.60	20.00	1.40	William R. Staats
3/10 5	West Penn Pr. 4.10% Preferred ..	100.71	102.50	1.79	Lehman Bros.
3/16 1	Interstate Tel. \$5.50 Pfd.	95.00	100.00	5.00	Paine, Webber
3/23 10	Pac. Ltg. \$4.50 Pfd.	98.25	101.50	3.25	Blyth & Co.
3/30 1	Calif. Pac. Util. 5½% Conv. Pfd. ..	18.60	20.00	1.40	First California
4/7 2	Assoc. Tel. Ltd. 5% Pfd.	20.00	21.25	1.25	Paine, Webber
4/7 2	Cent. Hudson G. & E. 4.75% Pfd. ..	100.55	103.75	3.20	Kidder, Peabody
4/13 10	Ill. Pr. 4.70% Pfd.	50.02	51.65	1.63	Merrill Lynch
Common Stocks					
2/7 8	American Lt. & Tr.	12.00	12.00	—	i
2/16 8	Conn. L. & P.	50.00	50.00	—	e
2/23 3	Southwestern Pub. Ser.	23.95	25.00	1.05h	Dillon, Read
2/25 19	Pacific G. & E.	25.00	25.00	—	d
2/28 4	Delaware P. & L.	17.64	f	f	Blyth & Co.
3/1 5	Central Maine Power	14.63	15.88	1.25*	Harriman Ripley
3/10 36	N. Y. State E. & G.	39.75	41.00	1.25	k
3/11 3a	Northern States Power	9.36	9.50	.14	Merrill Lynch
3/14 16	Cleveland Elec.	33.50	33.50	—	c
3/22 4	Wisconsin Elec. Power	15.00	15.00	—	g
3/23 3	Oklahoma G. & E.	32.50	32.50	—	g
3/30 1	West Coast Tel.	25.25	27.25	2.00	Blyth & Co.
4/6 16b	Ohio Pub. Serv.	15.03	16.00	.97	Blyth & Co.
4/7 2	Mountain States Power	30.20	31.75	1.55	Merrill Lynch
4/7 1	Tucson G., E. L. & P.	15.84	17.00	1.16	Blyth & Co.
4/12 17	Mississippi River Fuel	(?)	27.25	—	j

*Approximate; the parent, New England Public Service, waived its rights to subscribe to 219,196 shares. a—Represents Standard Gas & Electric's holdings. b—361,840 shares sold by company and 638,160 by Cities Service Company. c—Offering to stockholders 1 for 5. d—Rights 1 for 10. e—Rights 1 for 8; rights also issued for convertible debenture 3s due 1959 (included in total). f—70,081 shares of 232,520 shares subscribed, balance sold by Blyth & Co. at \$18.63. g—Rights 1 for 10. h—Rights 1 for 11, underwritten. i—Rights 1 for 5 (sold by United Light & Railways). j—Rights 1 for 2; underwritten. k—Rights 1 for 10 by General Public Utilities.



What Others Think

Roundup on Federal Power Policy Critiques



SOME slight confusion has come about in recent months as the result of the appearance of various similar congressional reports on the Federal government's power policies. Difficulty in keeping the reports straight stems from the fact that they have been released under the same signature. Robert E. Lee, under whose supervision the reports were prepared, came to the staff of the U. S. House of Representatives Appropriations Committee on loan from the Federal Bureau of Investigation. Lee was named to the committee's staff by Chairman Cannon (Democrat, Missouri) in 1944, during the 79th Congress. He is better known for his work as chief of the Appropriations Committee's investigative staff in the 80th Congress, during which most of the material was gathered and compiled. Lee is still with the Appropriations group as an aide to Representative Taber (Republican, New York), now the ranking minority member. The following is a list and description of the reports which came out of the committee during Representative Taber's chairmanship, to which occasional references have been made in the daily press and periodicals:

"Roberts Report"

Over-all Federal Power Policy Study prepared by A. B. Roberts and W. H. Sigersen, after eight to nine months of study. Technical in nature it is 127 pages in length. Briefed to 14 points and placed in the *Congressional Record* on February 3, 1949, by Representative George A. Dondero (Republican, Michigan).

"Sigersen Report"

Accounting Study of Reclamation Bureau, Bonneville Power Administration, and Southwestern Power Administration

MAY 12, 1949

fiscal policies, prepared by W. H. Sigersen. Brief report of 18 pages. Released when Interior Appropriations Bill, 1949, passed House May 27, 1948.

"Lee Report"

The Political and Financial Activities of the Bonneville Power Administration, prepared by R. E. Lee during the fall of 1948. Read into the *Congressional Record* of April 13, 1949, by Representative Jensen (Republican, Iowa). (About 10 pages fine type.)

The Roberts Report

ON the closing day of the 80th Congress, there was transmitted from the Committee on Appropriations, to Representative Dondero, as chairman of the Committee on Public Works, a report entitled "Federal Power Policy Study." A. B. Roberts, a consulting engineer, of Cleveland, Ohio, directed the study and W. H. Sigersen, CPA, assisted in the accounting phases of the study. Both of these men are outstanding authorities in their respective fields.

The report consists of 130 pages of highly informative data on electric power. It is, of necessity, technical in nature, but may be summarized in brief, as follows:

(1) The Federal government should cooperate with its citizens in the development of hydroelectric power, irrigation, and water-supply projects, and avoid competition with existing adequate facilities.

(2) The area of competition between federally owned power and citizen-owned power companies usually begins at the bus bar of Federal projects. In many multipurpose projects this competition does not include con-

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struction and operation of the dams themselves. The Federal construction of transmission lines to power markets frequently duplicates and tends to threaten existing and prospective private investments which do and could further serve the public adequately and as full taxpayers.

(3) Federal construction of transmission lines from dams on streams of erratic flow is particularly wasteful, unnecessary, and destructively competitive. Such projects require large storage reservoirs to equalize or regulate the flow. For many such projects the dam height and storage space are necessarily limited by the terrain, with the result that the full name-plate rating of the generators can be available only a few hours per day, with remaining hours reserved for storage of water. This kind of power is of highest value only for absorption into integrated near-by systems during periods of daily peak demand. In such cases Federal investment in transmission lines not only is competitive with private investment but wasteful of Federal funds.

(4) In general, Federal power is not cheap but is made to appear so by allocating substantial portions of the investment and annual expenses to features other than power. For example, a reexamination of the allocation of TVA's investment in flood control, navigation, and power is now under way by the Federal Power Commission and the Corps of Engineers, which may substantially increase the capital base upon which TVA's rates are presently fixed. An adjustment of all Federal power rates is indicated.

(5) There should be full public disclosure of the subsidies involved at the projects now in operation and those proposed.

(6) Present conflicting procedures should be standardized and fully developed for:

a. The determination of economic feasibility.

b. Accounting and rate making.

(7) Consideration should be given

to the treatment of Federal hydroelectric project in the same manner as for a licensee under the Federal Power Act. The standards of the Federal Power Act, if observed and applied in determining the economic feasibility of projects which include power, would make some radical changes in the investment allocations heretofore adopted.

(8) Studies should be made by competent authorities on the economic justification of all projects, whether completed, under construction, authorized, or proposed, with a view to determining the effect of present price levels, rising costs, and changed economics of the nation on the ability of such projects to repay funds advanced by the United States Treasury within a 50-year period, with interest. Those completed should be reviewed to ascertain if actual economic results obtained justify the actual investment and to determine whether any changes in practices need be made.

(9) Rates for power should be sufficient to meet all operation and maintenance expense, adequate provision for depreciation, payments in lieu of local, state, and Federal taxes, full interest on the Federal investment in power, together with provision for repayment of such investment within a 50-year period on a straight-line basis. Federal investment in power should include interest during construction.

(10) The rights of states and their public utility commissions should be recognized at all times.

(11) As a rule, the better hydroelectric sites of the United States already have been developed, and the remaining sites have been preempted by Federal government planning for later development. As the less attractive hydroelectric sites are constructed, they will tend to show an increase in cost and a diminishment of economic feasibility. The total cost of projects now proposed for power, flood control, navigation, and irrigation will exceed \$40 billion.

(12) The Southwestern Power Ad-

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ministration serves no useful purpose and should be liquidated.

(13) At present the Bureau of Reclamation includes in electric rates an annual interest component of 3 per cent of the investment allocated to power which is later applied as a reduction of the investment chargeable to irrigation. This practice should be stopped and the interest component returned to the Treasury of the United States.

(14) Soil conservation methods should be vigorously extended to provide substantial flood prevention and reduce the need of large, costly, and numerous downstream reservoirs to be used for flood control.

SIGNIFICANT facts, touched upon in this report, which deserve underscoring, are:

Western power projects' electric rates would have to be raised about 200 per cent to enable the government to defray their cost. Federal power revenues in 1946 amounted to \$71,280,000 but should have been \$147,010,000 if all Federal hydroelectric projects were to meet all true costs.

Projects	Collected	Should Have Collected
Bonneville Power Administration ..	\$18,070,000	\$36,493,000
Reclamation Bureau Projects ...	16,846,000	20,280,000
Southwestern Power Administration	1,456,000	8,225,000

Government power projects paid nothing in lieu of Federal taxes, while citizen-owned and -operated utilities paid 11.4 per cent of their revenues into the U. S. Treasury. The government-owned projects made relatively small payments into state and local coffers.

Federal projects make little or no depreciation charges, small interest payments, only a nominal repayment of principal to the government, and fail to show all operating and maintenance charges.

Taxpayers throughout the country are being obliged to foot the bill for these

projects (without personal benefit) and pay their own power bills, as well.

About 460 projects are under construction by government agencies, or are on the drawing boards. These would add 14,000,000 kilowatts of hydro power generating capacity at an average cost of \$850 per kilowatt (at January, 1948, cost levels). The report states that costs above \$300 per kilowatt capacity are out of line competitively with steam plants.

Total project list will cost about \$12 billion. Another \$4 billion would be spent for accompanying multipurpose development. One billion more would be used to extend transmission lines. In some cases these lines would go into areas where they would in effect duplicate existing public utility company lines. The grand total of about \$17 billion compares unfavorably (from a policy standpoint) with the total value of existing privately owned utility properties (\$16 billion).

The Sigersen Report

THE Sigersen report on the accounting practices of the Reclamation Bureau, Bonneville Power Administration, and Southwestern Power Administration was highly critical of Reclamation's practices. It recommended to the bureau's Washington office that it completely overhaul its accounting methods with the aid of General Accounting Office staff experts. It asked the bureau to "construct, in collaboration with the GAO, Treasury, and regional units, a complete description code, and issue (it) to all field offices." "Such codes," the report stated, "have been known to reduce record work as much as 50 per cent." The bureau was asked to eliminate, consolidate, and simplify its report forms, especially those covering costs.

Similar recommendations were made to the bureau's regional offices. The report singled out the bureau's Region II office at Sacramento, California, and described its accounting methods and procedures as "poor and chaotic." It stated, "the regional office accounting organization gives evidence of having been completely neglected by regional top man-

WHAT OTHERS THINK



"OH, YOU MUST MEAN EX-CORPORAL BLICKENS—YES! HE'S RIGHT THERE—STILL DIGGIN' FOX HOLES!"

agement." The regional director is R. L. Boke, who has been under fire in both the 80th and 81st Congresses for irregularities and lack of qualifications for his post, which includes supervision of the huge Central Valley project.

On Bonneville's accounting practices, the report said:

The accounting system is the best the investigator has so far observed in the government. Recommendations: None.

On Southwestern Power Administration's accounting system the report had the following to say:

The accounting system is patterned after the one at Bonneville Power Administration. While the volume of

operations and, consequently, accounting transactions are smaller than at Bonneville, and do not justify mechanization, the system is complete, comprehensive, and smoothly running. Recommendations: None.

Both Roberts and Sigersen advised the Hoover Commission on Organization of the Executive Branch of the Government. In this manner certain portions of the Roberts-Sigersen reports or similar data were considered in preparation of the task force reports.

The Lee Report

REPRESENTATIVE Ben F. Jensen (Republican, Iowa) has read into the *Congressional Record* the full context of the Lee report. Lee has made an investi-

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gation of the political and financial activities of the BPA. Jensen states that Lee's report is an objective appraisal of certain BPA activities which should be given full and serious attention.

The Lee report contains a letter from Dr. Paul Raver, BPA Administrator, to Assistant Secretary of Interior Davidson, in which (Jensen stated) Raver admits by implication violation of his own oath of office under § 9(a) of the Hatch Act drawing in, also by implication, the assistant secretary. The letter speaks of "revitalizing the public power movement in the Northwest" as one of the programs on which "strenuous work" has been done.

Jensen quotes Raver's letter (dated July 15, 1946) as follows:

... I have been working on the first step of our public power program today in Seattle. This program involves pulling together all of the public power forces of the region around an agreed program of public ownership and public acquisition of private utility company properties. As discussed ... it involves fitting municipal ownership program with REA development in the rural areas into an existing PUD plan and enlisting the support of the PUD's in carrying it out.

ON the basis of the information contained in this letter, Jensen has requested an investigation and public hearing involving all of the personalities mentioned: Ex-Governor Wallgren, Nick Bez (union figure), Guy C. Myers, Dr. Raver, and BPA, Grange, and PUD employees on the proviso that they all be placed under oath.

The Lee report states further:

... A spot-check examination was conducted of the Bonneville Power Administration ... with particular reference ... as to whether or not the administration was pursuing a reasonable course in behalf of the promotion of Federal power.

We find that the aggressiveness on the part of that administration in behalf of Federal power is closer to a

crusade than to an administration and leaves implications that all free enterprise advocates might well cogitate upon. If the elimination of the so-called free enterprise (system) in this field is not the policy of Congress, a solution must necessarily be found in one of two alternatives:

- (1) Amendments to existing legislation, both Federal and state, or
- (2) A courageous, clear-cut, Federal power policy.

Obviously it is the choice of the people as to what their desires are in this regard.

The Lee report states that certain unavoidable fundamental questions arise which it records merely to illustrate the complexity of the problem without suggesting any course of action. These are as follows:

- (1) Is it proper for the Federal government to socialize any industry?
- (2) Where should the responsibility of the Federal government end, with respect to flood control, navigation, irrigation, and power expansion?

When the Lee investigators questioned Dr. Raver about some of the material obtained from Bonneville files it is said he indicated quite frankly that he was in favor of Federal control of power in the Northwest and felt that such control was inevitable. The report states:

... He considered the Bonneville Project Act more social in nature than even the Tennessee Valley Authority Act.

THE Lee investigators' findings—letters, documents, orders, etc.—seem to establish a connection, long suspected, between every public power agency, whether Federal, state, or city, and cooperative associations and persons publicly associated with the Socialist party. Lee cites the fact that in September, 1946, a "Mr. Olsen" was placed in charge of a Bonneville Power Administration booth at the Oregon State Fair. Selected quotations from personal notes left behind by Olsen are reproduced here:

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I perform the following duties in accordance with provisions and limitations set up by administrative Order No. 33:

- (1) Explain why it is necessary for building of more dams. . . .
- (5) Convincing people that public distribution of power is their inherent right.
- (6) Preparing material to use in ads, pamphlets, and public relations work.
- (7) Speaking at meetings and fairs and answering questions about the public ownership of utilities. This involves much study and thought as to most effective method of presentation of the facts.
- (8) Combatting private power company propaganda.
- (9) Working with organizations—Grange, labor groups, farmers' union, old-age pensions, POL, etc. (POL is assumed to be an abbreviation for Public Ownership League.) . . .
- (11) Selling public power.
- (12) Selling idea that Columbia river power is nature's greatest gift to the people.
- (13) Selling idea—it's theirs by prior right.

- (14) Development operations require study of public power throughout the entire nation because NW public power development is a part of a nation-wide program. Therefore, it is necessary for us to know about TVA, Boulder (dam), Santee-Cooper, Nebraska, etc.—when one is attacked, all are attacked. Necessity for a unified national program.

Perhaps this compactly written description of a Bonneville employee's conception of his job is the crowning discovery of the Lee investigators. It is a gem which gives the reader a glimpse of the daily application of policies which, the man evidently had been told by his superiors, were vital. This and other contributions to knowledge of the covert intentions of public power promoters (as contained in the Lee report) are well worth reading in their full context.

THE Roberts, Sigersen, and Lee reports have been read into Senate and House hearings either in whole or in part. They are currently being cited by congressional leaders in an effort to check the drive for public power legislation.

—F. J. T., JR.

Corrosion Losses in Gas Industry

THE American Gas Association estimates that annual losses to the gas industry from the effects of corrosion run as high as \$250,000,000 yearly. The losses occur not only in underground transmission and distribution systems, but also in above-ground structures such as holders, condensers, scrubbers, pumps, and meters.

The technical section of the association has launched a direct attack on the problem. At a recent AGA Distribution, Motor Vehicle, and Corrosion Conference in Cincinnati, a newly formed corrosion committee submitted its first re-

port outlining a program for evaluating and rectifying corrosive influences.

Under the general chairmanship of Sidney E. Trouard, electrolysis engineer, New Orleans Public Service, Inc., subcommittees have been formed to investigate causes of underground corrosion of metals, underground corrosion mitigation practices, and proper instruments to measure and detect corrosive influences.

Important reductions in leaks in transmission and distribution lines through protective measures already have been made as a result of the gas industry's investigations.



The March of Events

Colorado

Gas Service to End

TRINIDAD, one of southern Colorado's most populous communities, will be without gas service after October 1st.

The state public utilities commission announced recently it had granted permission to the Frontier Power Company to discontinue service on that date.

The company operated the city's electric company until the first of the year,

when a municipal plant took over that business.

It said, in its request to abandon service, that gas operations had shown losses every year since 1943. For the first eleven months of last year this amounted to \$11,678. The company estimated it would cost \$1,000,000 to rehabilitate the gas plant and distribution system and to obtain natural gas.

Connecticut

Governor Seeks Authority Approval

GOVERNOR Chester Bowles last month asked legislative approval for Connecticut participation in a New England development authority.

Warning that "we must not allow New England to become a museum piece, where people come to look at the past," Bowles told the state general assembly, in a special message, that "it is essential

that we meet the challenge of other sections of America."

The chief executive said the proposed development authority had been approved by the six New England governors at a recent meeting.

The duty of the authority, comprised of one representative from each of the six states, would be to "maintain a continuing study of New England's future development." Connecticut's share of the cost was fixed at \$40,000 a year.

Florida

State Utility Regulation Proposed

REGULATION of Florida electric power and gas companies by the state railroad and public utilities commission was proposed in the state legislature last month.

Representatives Burwell and David of

Broward county introduced a bill giving the commission broad authority to set utility rates, regulate services and safety of operations, test meters, force repairs and improvements to plants, and generally fix rules governing the industry.

Gas and electric services owned by cities and coöperatives would be exempt from the regulation.

THE MARCH OF EVENTS

The state commission regulation would supersede existing authorities of various local boards. All the commission's rulings would be subject to review by the courts.

All efforts in previous years to set up a statewide utility regulatory law have failed, but several counties and cities have created boards to supervise the industry in their communities.

A bill to enlarge from three to five the number of commissioners of the state commission also has been introduced in the house. Sponsors were the Pinellas delegation, Representatives Charles J. Schuh, Jr., Archie Clement, and James McClure, Jr.

The measure would permit the commission also to review rates charged by gas and electric companies, and would divide the state into five commissioners' districts.

Board's Authority to Fix Rates Upheld

AUTHORITY of the Pinellas Utility Board to fix electric rates was upheld by the state supreme court on April 22nd.

The court, in a 5-to-2 decision, said the 1947 law creating the board with broad regulatory powers did not violate the state Constitution. The law was attacked by the Florida Power Corporation.

Justice Roy Chapman, writing the court's opinion, said the legislature has authority to delegate to a board or commission the right to regulate business and trade in the public interest. He cited numerous previous decisions in dismissing 13 questions of validity raised by the power corporation. The court said expenses of the board did not constitute an unlawful expenditure of county funds.

Missouri

Commission Member Appointed

JOHAN P. RANDOLPH, chief counsel of the state public service commission, last month was appointed a member of the 5-man commission by Governor Forrest Smith. Commissioner E. L. McClintock, whose term expired on April 15th, was reappointed.

Both appointments, for 6-year terms, must be confirmed by the senate.

Randolph, who has been chief counsel of the commission for the last six years, serving by appointment of former Governor Forrest C. Donnell, would replace Miss Agnes Mae Wilson, Trenton, Republican. Randolph is a Republican from St. Joseph.

Nebraska

Appliance Sales by Districts Hit

AGROUP of southeast Nebraska appliance dealers is objecting to the selling of appliances by the Norris Public Power District.

Spokesman for the dealers, who organized early this year, was Paul W. Eagleton, Burt county judge at Tekamah. He is serving as legal counsel for the appliance dealers.

Addressing the Norris District directors, Eagleton said the district's going into the appliance business is a threat to

private enterprise, that as the REA district is "tax supported" it does not have to show a profit, and that the handling of an appliance line by the district would serve as an endorsement of that line, to the disadvantage of dealers in other lines.

Lester Trussell, manager of the Norris District, in reply said the district is not "tax supported," but borrows money from the Reconstruction Finance Corporation, paying interest. The district's only interest in appliances is to increase the use of electricity, he said.

New York

Ordered to Restore Rate Cut

THE court of appeals in a decision last month ordered the Consolidated Edison Company of New York to restore the 10 per cent cut in temporary electric rates which had been ordered by the state public service commission to take effect last January 10th. The commission order would cut power bills for 2,154,000 consumers in Manhattan, Queens, Brooklyn, and the Bronx by an estimated \$21,500,000 a year.

By its recent action, the court of appeals reversed the injunction granted March 16th by the appellate division, third department, which in effect rescinded the commission order by temporarily permitting the utility to return to its previous permanent, or higher, rates.

An action to annul the commission's decision was slated to be argued in the appellate division this month. If the reduced rates are sustained in that litigation, customers will receive refunds for the higher bills they have paid since January 10th. Meanwhile, the commission continued hearings on its order, also issued January 10th, to increase gas rates to consumers by some \$11,000,000 a year.

Dewey Signs Power Project Bill

GOVERNOR Dewey placed responsibility for any further delay in start-

ing the St. Lawrence river hydroelectric development squarely on the Federal government recently in approving a bill broadening the powers of the state power authority.

The governor in a memorandum stated that the bill "modernizes the statutes relating to the New York State Power Authority. In addition, it eliminates two undesirable restrictions on the development of the St. Lawrence project; namely, the requirement that the authority have firm contracts for the disposition of its power before issuing any bonds and some of the restrictions regarding construction by the authority of transmission lines."

Cheap and plentiful power, he said, is essential to progress, economic and social.

Rate Increase Approved

CENTRAL HUDSON GAS & ELECTRIC COMPANY has been authorized by the state commission to increase its electric rates by 3 per cent on an interim basis for a period ending October 31st, the company announced recently. By that time final determination in the rate proceedings is expected. Ernest R. Acker, president, said the 3 per cent increase is equal to \$286,000 a year additional gross, which would mean about \$168,000 additional net income.

North Carolina

Commission Membership Increased

GOVERNOR Scott won a major victory last month when the senate public utilities committee voted to approve his plan to increase the number of state utilities commissioners from three to five.

The administration-sponsored measure was subsequently approved by the senate. The senate defeated another proposal which would have given private

power companies the right to carry into the courts arguments over whether transmission lines could be built across their territory by Rural Electrification Administration membership coöperatives.

The senate turned down the amendment flatly and then passed the bill, under which the utilities commission acquires an assistant attorney general and is given authority to order public utilities to expand their services in areas where service is inadequate.

THE MARCH OF EVENTS

Pennsylvania

Original Cost Bill Killed

THE measure, sponsored by Senator Elmer J. Holland, Pittsburgh Democrat, which would have required the "fair value" of utility concerns to be determined upon the basis of original cost plus depreciation, rather than upon the cost of replacing the properties at present prices, was killed by the state senate last month.

By a vote of 35 to 15 it was sent back to committee to die.

Senator Holland said the bill would have fixed lower "fair values" and therefore lowered rates.

Power Rates Increased

THE state public utility commission last month allowed the Philadelphia Electric Company to increase charges to its 856,635 customers by \$9,587,541 a year, effective April 18th. Increases will average 45 cents a month for residential customers who comprise all except 195,501 in commercial and industrial classifications.

Commissioner John B. Conly voted against the increase, the first asked by the company since 1921. During the interval its rate reductions have totaled \$23,841,287 a year, the commission said.

South Carolina

Power Authority Loses in High Court

THE South Carolina Public Service Authority last month failed to get a United States court review of its unsuccessful efforts to buy the capital stock of the South Carolina Power Company. Justice Black favored a review. Justice Douglas took no part.

The authority is a state agency operating a hydroelectric system in southern South Carolina. Lawyers for the authority said the South Carolina Power Company was the chief natural outlet for the "cheap power" the authority produces.

The authority offered the Commonwealth & Southern Corporation \$11,600,000 for its stock in South Carolina Power Company. Commonwealth & Southern, however, accepted a \$10,200,000 offer by the South Carolina Electric & Gas Company.

The Securities and Exchange Commission and the Federal Power Commission approved the sale of the stock to South Carolina Electric & Gas Company.

Circuit Judge E. H. Henderson recently issued an order blocking the efforts of Santee-Cooper to forestall a suit designed to prevent the Santee-Cooper Authority from entering into a contract with the Central South Carolina Rural Electrification Coöperative to build transmission lines in the state. REA has agreed to lend \$7,000,000 to the co-op.

Santee-Cooper filed a demurrer against the suit, instituted by the South Carolina Electric & Gas Company, Columbia; the South Carolina Power Company, Charleston; and the Carolina Power & Light Company, Raleigh. In overruling the demurrer, Judge Henderson held that the three companies have a sufficient cause of action for the case to be tried.

Tennessee

Rural Areas Get Policy Voice

FINAL action in a revolutionary step in public power management was taken

recently when legislative action was completed on a bill to add three rural representatives to the Johnson City Power Board.

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The Johnson City Power Board, one of scores in the Tennessee valley set up to manage distribution systems taking power from TVA, now consists of five members named by the city. But the 18 community clubs of Washington county, which in turn were stimulated to some extent by TVA fertilizer and test demonstration farms, have been insisting the board has neglected to provide rural areas with electric service. These clubs demanded representation on the board. This bill gave it to them. Under it Washington County Court will elect two more members of the power board and Jonesboro one.

Labor Bill Vetoed

A BILL which would have outlawed strikes against electric power companies in Tennessee and required compulsory arbitration of such labor disputes before the state railroad and public utilities commission was recently vetoed by Governor Browning.

The state house overrode the veto, but it was sustained by the state senate.

An administration bill to transfer control of city transportation systems to the state commission was rejected by the senate just prior to adjournment of the state legislature last month.

Vermont

Rates Ordered Suspended

SCHEDULED higher gas and electric rates filed by the Central Vermont Public Service Corporation were ordered suspended recently by the state public service commission. The utility had filed the rates to become effective May 11th.

Subscribers in 190 communities are affected by the new electric rate schedule while gas users in Rutland city would be affected by the new gas rates.

Suspension of the effective date was ordered under a law enacted during the

current session of the state legislature.

Commission Chairman James S. Holden said a hearing on the proposed rate increases would be scheduled in the near future. He explained that the way was still open for the utility to request an emergency increase. An emergency increase, if allowed by the commission after a preliminary hearing, would go into effect at once under a refunding bond.

The utility estimated that the new rates would produce an additional 13 per cent in domestic electric revenue annually.

Virginia

City Plant Gas Rate Raised

CITY Manager Reeder recommended to the Richmond council recently the adoption of a new gas rate schedule which would increase the average residential gas user's monthly bill 24 per cent. An ordinance providing for the rate boosts was introduced and set for public hearing on May 16th. The increase would be effective June 1st.

The proposal that gas rates be hiked was said to be in accord with a provision of the new charter which says that in-

creases must be made if the city loses money on its gas utility for three years in succession.

The new rates were proposed by Henkel Company, Inc., consultants, of Washington, who made a study of the city's gas utility for the 10-year period 1939 through 1948. Louis C. Henkel, president of the firm, reported that the city lost \$129,345 from its gas business in the 1947 fiscal year and \$173,543 in 1948, and he estimated the current year's loss at \$642,500.



Progress of Regulation

Departments and Interstate Operations Separated for Rate Making

THE Montana commission authorized an increase in steam-heating rates and denied an increase in electric rates in the case of a company operating gas, electric, and steam-heat service in Montana and portions of other states. The company also engages in the nonutility business of merchandising gas and electric appliances and equipment.

The electric and steam-heating utilities were considered separately and apart from the other business, including gas service. An attempt by those protesting a rate increase to show that by reason of income from merchandising operations there was no need of increases in utility rates failed.

The commission said it had no jurisdiction over nonutility functions such as merchandising activities. It could not order a utility to engage in or refrain from engaging in nonutility business. Neither could it regulate such business. It could not grant rates which would pay losses in nonutility business, nor could it reduce rates or refuse increases because nonutility business shows a profit.

A public utility must be maintained in a sound financial condition if it is to furnish adequate service, said the commission. An application for a rate increase involves revenue received in the state less operating expenses, depreciation, and taxes, which gives net operating revenue. This figure, the commission continued, is related to the value of the utility property used and useful in the state to obtain the rate of return.

The utility, it was said, is entitled to earn a fair return on the value of its property. The commission, in determining a fair return, is not concerned with the return on capital stock, return from other utility services furnished by the company, or return from nonutility business, nor can it be concerned with who the beneficiary of increases may be.

A company operating in several states and performing several types of service, the commission declared, is entitled to a fair return on the property used and useful in furnishing a particular utility service in the state. It cannot be prevented from earning a fair return on electric service in the state because its system condition is good, nor can it earn more than a fair return if its system condition is deplorable.

An allocation between electric and steam-heating departments based on percentage of steam delivered to the steam plant, instead of the ratio of electricity generated, was accepted as a fair and equitable method of determining cost of plant and operating expenses. Property and expenses were allocated between states on the basis of gross revenue, which takes into account variances in rate scales for different steps and types of customers and is more nearly equitable than allocation on gross sales or number of customers, the commission said.

The commission, although in favor of benefits to labor, said that it could not ignore its duty to the general public for the benefit of employees of a public util-

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ity. Some wage increases had been made conditional upon the commission grant-

ing relief. *Re Montana-Dakota Utilities Co. (Docket No. 3676, Order No. 2059).*



Commission Has Power to Regulate Construction Near Airport

THE Wisconsin commission dismissed an application for an order restraining public utilities from erecting overhead transmission wires within one mile of airports. The commission held that it has jurisdiction to prescribe methods of construction of utility property; that it can issue detailed rules covering construction near airports generally or that it can handle each case separately. It believed that the methods of constructing airports and the difficulty of predicting future advances in that industry made it undesirable to attempt to write detailed rules.

In this particular case the commission believed that the rule incorporated in the State Electrical Code governing construction near airports would substantially serve the petitioners. This rule was based on a glide ratio of 40 to 1, which is the maximum airport protection provided in statutes governing zoning of airport approaches.

The commission also considered the policy to be followed in allocating the cost of moving lines near airports. It believed that, as a general principle, each public enterprise or business should pay for its own facilities and that no enterprise should be given an advantage solely because it happened to be the first in the

field. The commission further explained:

This same philosophy was, in general, used by the commission in cases involving electrolysis and inductive interference. The enterprise which entered the field last, in general, paid for moving the other's facilities if that was all that was necessary, paying the remaining value of any facilities of another company that had to be replaced; but in general the new enterprise did not furnish new facilities for the enterprise that was first in the field. Early in the regulation of utilities this commission issued an order covering the change of the type of electric service from direct current to alternating current. In that order the commission required the utility to pay the customer for the remaining value of the customer's equipment, pay for the cost of changing the electric wiring, installing the new equipment, and removing the old. This required the customer to buy new equipment to replace the old even though the new equipment cost more than the original equipment or more than the utility paid toward replacing such equipment.

Re Waukesha Aviation Club, Inc. (2-U-2507).



Motor Carrier Permit Limited to Grandfather Rights

THE attempt of a motor carrier to have the New York commission extend its operating authority to articles not included within the commission's definition of the term "commodities generally" was denied by the commission.

The carrier sought to extend its permit to include heavy commodities requiring the use of special trucks, equipment, and rigging. The carrier contended

that it was unaware of the limits of the term "commodities generally." However, the commission upset this contention by showing that many months before the controversy arose a copy of the commission's definition of the term had been served on the office of the carrier.

The carrier had been issued a contract carrier permit after establishing its right in a judicial proceeding which was car-

PROGRESS OF REGULATION

ried to the state court of appeals. The court order directed the commission "to issue to applicant a permit to engage in the transportation of commodities generally." The commission ruled that there was nothing in the court order which indicated that the permit was to include something broader than general commodities within the state public service

commission's definition of the term.

The application was brought under the grandfather clause, the commission said. The carrier had established its right merely to carry "general commodities." It was not entitled to any greater rights than it had exercised in the critical period and thereafter. *Re Motor Haulage Co. (Case MT-3849)*.



Phone Discontinuance at Police Request Upheld

A TELEPHONE subscriber's complaint against service denial at the request of law enforcement authorities was dismissed by the New Jersey Board of Utility Commissioners. The telephone company based its action on a tariff regulation to the effect that facilities and service may be terminated upon objection to their continuance made by any governmental authority. The board had found this regulation to be valid and

reasonable in an earlier proceeding and reaffirmed this finding.

The subscriber's challenge to the propriety of the action of the county prosecutor in requesting the termination of service was dismissed for lack of jurisdiction. Persons questioning the actions of law enforcement authorities have adequate remedies in the courts. *De Luisa v. New Jersey Bell Telephone Co. (Docket No. 4207)*.



Figures for Test Year Adjusted to Reduce Basis for Telephone Rate Increase

THE New Jersey board authorized the New Jersey Bell Telephone Company to increase rates so as to produce a return of 5.6 per cent on a rate base measured by investment, less depreciation reserve, plus working capital. Evidence as to a current cost rate base was said to be "beset with many infirmities."

Plant under construction was excluded, since the company followed the practice of capitalizing interest during construction. The state contended that a completed exchange building should not be transferred to plant in service until the new exchange is actually placed in service. The company had been following the practice of making the transfer upon completion of the building, even though this might be several months in advance of the placing of the new exchange in service. But it then ceased charging interest during construction. The board thought there was no over-all overstatement of rate base results.

Experienced operating results for the year 1948 were taken as a basis for testing the reasonableness of rates, but various adjustments were found to be appropriate. Only one-fifth of certain unusual expenses were allowed. For example, an unprecedented ice storm had been experienced in 1948. Such severe storms had not on the average been experienced more often than at intervals of five years.

Similarly, extraordinary expenditures associated with the introduction of drastic changes in rates were spread over a 5-year period, as well as advertising expenditures pertaining to proposed rate changes.

As to this item there had been a contention that advertising expenditures should be eliminated because the company could have provided customers with information in its informational bulletin accompanying monthly bills for service. But this bulletin was delivered only once

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a month on the same cycle as bill deliveries. Accordingly, said the board, this limited its usefulness where it was necessary or desirable to make information available to all customers at the same time or at other times than bill delivery dates.

A claim for expense of soliciting directory advertising was reduced upon a showing that the company's own personnel covered two counties, while an outside advertising agency covered the remainder of the company's service area at a higher cost.

An adjustment was made for a reduction in expenses resulting from changes in the company's business practices. For example, the company had begun to close business offices on Saturdays. It had also introduced "rack sorting"—a more efficient method of sorting toll tickets than that previously in effect.

Dial conversion costs were allowed as an operating expense since the completion of a dial conversion program would require many years, and dial conversion

costs would necessarily continue to be experienced for some time in the future.

The board followed its previous decision in *Re New Jersey Bell Teleph. Co.* (1947) 72 PUR NS 37, in dealing with payments to the American Telephone and Telegraph Company. In that case the board established a definite figure as the portion of the costs of rendering license contract services assignable to intrastate business, and it made the same allowance here.

The board also followed its earlier decision in eliminating from operating expense one-half of a claimed expense for the "freezing charge" to cover interest costs associated with arresting the growth of the unfunded portion of the actuarial pension reserve requirements.

Contributions and donations were excluded as not chargeable to customers, although the company was complimented for contributing to worthy causes. *Re New Jersey Bell Teleph. Co.* (Docket No. 4097).



Public Hardship No Basis for Denial of Rate Increase

THE Connecticut commission permitted a rate increase where the utility, because of increased wages and other necessary expenses of rendering transportation service, was operating at close to an out-of-pocket loss.

A union council opposed the increase on the ground that it would be an undue burden on the public at a time when weekly earnings are tending to fall. The commission summarized the objection as a claim that "the inability of some patrons, on account of earning power and increase in unemployment, to pay the increase justifies the denial of the application."

The commission first pointed out that any rate increase which would work a hardship on the public or a portion of the public was regrettable. However, the commission added, where a denial of a rate increase results in the confiscation of utility property for public use without just compensation, such objection must give way. Not only would the utility suffer under such circumstances, but denial of the needed rate increase would be brought home to the public in a rapid deterioration of service. *Re Connecticut Railway & Lighting Co.* (Docket No. 8146).



Operating Ratio As Well As Rate Base Viewed in Transit Case

EARNINGS of a bus transportation company, according to the Utah commission, should be tested both by the ordinary

relationship of rate base to rate of return and by the operating ratio test. The former, said the commission, is not as

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reliable a gauge in the case of bus transit utilities as in the case of electric, gas, and telephone utilities. The latter test also has its infirmities.

A bus transportation company, the commission thought, could operate safely from a financial standpoint where the operating ratio of revenues to expenses, exclusive of Federal income tax, was 89.7 per cent, and the ratio of revenues to expenses, including Federal income tax, was 93.3 per cent.

A return of from 6½ to 7 per cent was said to be fair and reasonable. A somewhat higher rate of return, according to the commission, is justified in the case of a bus transit company than in the case of electric, gas, and telephone utilities.

Its business is subject to greater fluctuations. Unlike other utilities, it makes no minimum charge to customers for its services over a given period. Moreover, the higher operating ratio of a bus company will reflect a much greater variation in profit from a given variation in operating revenue.

The rate base was measured by original cost less depreciation. Allowance was made for materials and supplies, but no allowance was included for cash working capital, since revenues are collected at the time of rendering service or in advance.

The amount of property taxes prorated

to the company at the time it acquired property from another company should not, according to the commission, be capitalized instead of being charged as an expense, even though the taxes were a lien on the property at the time of acquisition.

The unamortized portion of the amount paid to a motor coach company for intangibles in connection with the acquisition of property was held to be properly includable in the rate base. The acquisition had been largely at the instigation of the commission, and the contract of sale had been submitted to the commission and the purchase price approved.

An upward adjustment in expenses was recognized because of a new wage contract which, said the commission, made this a definite expense increase.

No increased allowance was made, however, for the cost of materials to compensate for price trends. Similarly no downward adjustment was made to compensate for a downward trend in revenues.

Economic trends and cycles, said the commission, are too uncertain to permit an intelligent forecast.

A payment to an affiliate was limited to cost of service. *Re Salt Lake City Lines, Inc. (Case No. 3199).*



Rights of Way for Service Extensions to Be Furnished by Customers

THE New York commission authorized all electric companies in the state to file tariffs providing that applicants for service shall furnish the companies permanent easements or rights of way in so far as the extensions affect the property owned by the applicants.

The authorized tariff would also provide that the companies are not obligated to commence construction of extensions until the applicants have obtained satisfactory easements or rights of way or have agreed to pay a surcharge of 12 per cent of such cost as may be incurred by the companies if they, at the applicant's

request, obtain such rights as sought.

The commission said, however, that these provisions should not be mandatory for those companies desiring to acquire and pay for rights of way.

Tariffs generally require that a prospective customer acquire the necessary right of way. In general, in rural areas, it was pointed out, no difficulty was encountered when it was a matter of a customer treating with his neighbors. In fact, a representative of at least one farm organization believed that requiring the companies to acquire rights of way, in the first instance, might increase the cost

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of rural rights of way and impede rather than help rural electrification.

The commission had adopted uniform rules relating to extensions throughout the state. Certain companies had variously interpreted the rules. Where extensions were under 500 feet, it could be argued that it would be possible for a customer to require a company to acquire a right of way from the customer himself.

For that reason the commission

deemed it appropriate to clarify the policy in respect to the acquisition of easements.

Where condemnation would be necessary, the company would have to acquire the right of way. But inasmuch as the right of way, if acquired by the company, would constitute part of the cost of the line extension, the proposed customers should have an opportunity to get the right of way. *Re Rights of Way for Extensions of Service (Case 13652)*.



Other Important Rulings

THE supreme court of Wyoming held that the statutory provision that any interested person may apply for a rehearing is permissive and not mandatory and that a rehearing need not be sought before an appeal to the district court by a party dissatisfied with an order of the commission authorizing the construction, operation, and maintenance of an oil pipe line. *Re Hamilton Pipe Line Co. et al.* 202 P2d 184.

In considering a telephone utility's claimed expenses for the salary of a controlling partner, the Missouri commission refused to consider what the partner believed he should be receiving for his services to the company but limited its determination to the salary actually paid him for some months prior to the rate hearing at which the question became important. *Re Gault et al.* (Case No. 11,321).

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Public Utilities Reports (New Series) are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

CALIFORNIA PUBLIC UTILITIES COMMISSION

Re The Pacific Telephone & Telegraph Company

Decision No. 42529, Application No. 28211

February 23, 1949

PROCEEDING upon order to show cause with respect to payments by a telephone company to its parent company under a license agreement; company ordered to limit payments to reasonable cost or reasonable value of services, whichever is the lesser, and to make reports as to services and payments.

Expenses, § 87 — Payment to parent company — Investor's cost.

1. Local telephone companies operating as licensees of a nation-wide parent company should pay the cost of bona fide services rendered by the parent company which benefit them, but should not be required to pay costs which the nation-wide company incurs as an investor in their securities, p. 135.

Expenses, § 87 — Payment to parent company — Taxes.

2. A local telephone company receiving services under a license contract should not be required to pay income and other taxes which result from its parent company's earnings on its nation-wide investments, p. 135.

Expenses, § 87 — Payment to parent company — Cost basis — Return on property devoted to service.

3. The cost of properties of a parent company devoted to service to subsidiary statewide telephone companies should be included, irrespective of corporate lines, as a basis for the return element of the parent company's cost, in determining allowances for payments to the parent company, p. 135.

Expenses, § 87 — Payments to parent company — Cost basis — Funds held available.

4. Funds held available by a parent company to cover the cash requirements of subsidiary telephone companies have no place in a rate base, and the cost of such funds is not a proper charge to a subsidiary's operating expense, p. 135.

Expenses, § 83 — Payment to parent company — Burden of proof.

5. The rule that a utility must bear the burden of showing by satisfactory evidence that all charges to operating expense are reasonable and have been reasonably incurred applies with special emphasis to a charge by a holding company, p. 135.

Expenses, § 5 — Powers of Commission — Intercompany payments — Effect of contracts.

6. Contracts between a utility and a parent company providing for intercompany payments are not binding upon a regulatory body and have no validity in a rate proceeding unless the terms thereof are within the bounds of reason, p. 135.

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Expenses, § 87 — Payment under license agreement — Percentage of revenues — Cost of services.

7. A payment required to be made by a subsidiary to a parent telephone company pursuant to a so-called license agreement is arbitrary, unreasonable, and unjust when it is a percentage of gross revenues and bears no rational relationship to the reasonable cost of the services actually rendered to the subsidiary by the parent company and its affiliates, p. 135.

Intercompany relations, § 12 — Powers of Commission — Contract with parent company.

8. The Commission has jurisdiction and authority to regulate, in the public interest, a telephone company's participation in a license fee arrangement under which it makes payments to a parent company for services rendered, p. 135.

Intercompany relations, § 15 — Agreement with parent company — Services.

9. An arrangement between a telephone company and a parent company under which the subsidiary pays to the parent a percentage of gross revenues as compensation for advice, assistance, and services is prejudicial to the operating company and its ratepayers when, because of domination by the parent company, it is not in fact a contract but merely a requirement imposed upon the subsidiary by the parent, not being an agreement reached by the process of arm's-length bargaining and negotiation, p. 140.

Intercompany relations, § 15 — Intercompany payments — Gross revenue basis.

10. An agreement under which a parent company supplies services to a subsidiary for compensation based on gross revenues, without an allocation of the cost of services, should not be permitted to stand, p. 140.

Intercompany relations, § 12 — Powers of Commission — Regulation of contract with parent company.

11. The Commission has authority, as a necessary incident to its power to fix rates and to abate unreasonable, unjust, and improper practices, to promulgate a rule limiting payments by a telephone company to a parent company for services rendered under an agreement, p. 141.

Security issues, § 17 — Powers of Commission — Protection of minority stockholders — Payments to majority stockholder.

12. The Commission has power, under its authority to control the issuance of securities, to prescribe a rule limiting agreed payments by a telephone company to a parent company for services when such a rule is necessary to protect minority stockholders from a diminution of income by payments going into the treasury of the parent company, p. 141.

Accounting, § 4 — Powers of Commission — Agreement for intercompany payments.

13. The Commission, in the exercise of its power to regulate accounting, has authority to regulate agreed payments by a telephone company to a majority stockholder for services where excessive payments are disallowed as an operating expense and the accounting records of the subsidiary reflect these excessive payments, p. 141.

Intercompany relations, § 15 — Payments to parent company — Limitation to reasonable cost.

14. A telephone company receiving services from a parent company, under an agreement providing for payment of a percentage of gross revenues as compensation, should be required to pay the parent company no more than

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the reasonable cost of performing services or their reasonable value, whichever is less, p. 143.

Constitutional law, § 11 — Police power — Contracts — Property rights.

15. All contracts, no matter how lawful or valid, and property rights, no matter how long vested, are subject to impairment and even destruction by the lawful exertion of the police power of the state, and the contract clause of the Federal Constitution affords no protection, p. 144.

Intercorporate relations, § 5.1 — Constitutional requirements — Regulation of intercompany payments.

16. A rule, promulgated by the Commission, limiting payments by an operating company to a parent company for services furnished under contract would not confiscate the property of the parent company; the parent company could not gain a vested right in any unlawful or improper conduct it might engage in with its subsidiary, p. 144.

(CRAEMER, Commissioner, concurs in part; ROWELL, Commissioner, dissents.)

APPEARANCES: Arthur T. George, Eugene M. Prince, Fletcher Rockwood, and Eugene D. Bennett, for respondent; Roger Arnebergh and T. M. Chubb, for the city of Los Angeles; John J. O'Toole, Dion R. Holm, and Paul L. Beck, for the city and county of San Francisco; Emuel J. Forman, for the cities of Alhambra, Beverly Hills, Burbank, Culver City, El Monte, El Segundo, Glendale, Hawthorne, Inglewood, Pasadena, South Pasadena, Arcadia, and South Gate; J. J. Deuel and Edson Abel, for the California Farm Bureau Federation; Reginald L. Vaughan and John G. Lyons, for the cities of Bakersfield, Sacramento, Fresno, Stockton, and San Jose; C. M. Ozias, for the city of Fresno; Everett M. Glenn, for the city of Sacramento; Frederick J. Lordan, for the Department of Public Utilities of the state of Washington; John W. Collier, Archer Bowden, and Loren W. East, for the city of Oakland.

By the COMMISSION: This proceeding upon the order to show cause herein arose out of the situation created by the failure of the respondent The

Pacific Telephone and Telegraph Company (hereafter referred to generally as "respondent") to comply satisfactorily with an order contained in Decision No. 41416 rendered by this Commission on April 6, 1948, 75 PUR NS 379, in the above-captioned rate proceeding. Said Decision No. 41416 partially granted to respondent requested rate increases. In granting, in part, such rate increases, this Commission, in its said Decision No. 41416, ordered respondent to comply with certain terms, conditions, and requirements embodied therein, among which was the following:

"3. Applicant" [respondent in this proceeding] "shall submit not later than July 1, 1948, a plan for a new arrangement with American Telephone and Telegraph Company in respect to payments for services rendered to applicant by Bell Telephone Laboratories, Inc. and for services rendered to applicant by the operation and engineering and other departments of the American Telephone and Telegraph Company to the extent recognized herein as proper costs chargeable to applicant."

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Pursuant to the foregoing quoted order, respondent filed a written response with the Commission on July 1, 1948, which response reads as follows:

"By Item 3 of the order the company was directed to submit 'a plan for a new arrangement with American Telephone and Telegraph Company in respect to payments for services rendered to applicant . . . to the extent recognized herein as proper costs chargeable to applicant.' In its opinion the Commission also stated that the company had a responsibility to take immediate steps to negotiate with the American Company for a restatement of the license fee so as not to exceed a charge of \$1,850,000.

"Notwithstanding that the company has always considered the license contract a fair contract under which the company has had full value received for every payment made, the company, immediately following the issuance of the Commission's opinion and order, negotiated with American Company as to the possibility of obtaining modification of the present arrangement as suggested by the Commission.

"The American Company has advised that in view of its costs incurred, which exceed the amount paid by the Pacific Company for services received, it cannot assent to a reduction of the current payments to \$1,850,000 or enter into a new arrangement for determining the annual payment on the basis on which the \$1,850,000 was computed.

"This license contract, as modified from time to time, has been in effect since 1880. The present organization of the Bell System as to the division of work between the central

organization and the operating companies, provided for by the license contract, results in better service at lower cost than any other method. The services which have been rendered under this contract are of great value and in the opinion of the management are indispensable. Over the years it has been and it now is the judgment of the officers and the board of directors of the company that the contract is in the best interests of the company and its service to the public; also that it would be very detrimental to the company and to the public if the services under the license contract were to be terminated.

"The company is advised by its counsel that the Commission's order of April 6th does not require this company to revise the contract and that the Commission is without jurisdiction to make such an order. Counsel advised that while the Commission in rate cases may properly pass upon the reasonableness of claimed operating expenses and in so doing may disallow a part of a payment under a contract, assuming, of course, there is warrant for such action in the testimony before it, it has no jurisdiction to make an order operating directly on the contract.

"In the opinion of the company, the method of measuring payment for the services in question is not the primary issue — the important matter is the amount paid for the services received. While the company cannot in the existing state of affairs effect the particular changes in the present arrangement which are suggested by the Commission and while the company most respectfully submits that the Commission erred in disallowing any part of

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the contract payments for rate purposes, the company does emphasize its desire to find a common ground with the Commission, if possible, and to that end will be glad to work with the Commission either informally or in a formal proceeding.

"In this connection, the company has just been advised by the American Company that it has agreed again to discuss with the NARUC¹ the license contract and cost of furnishing services thereunder. In view of this situation, we request this Commission to defer, for the time being, its further consideration of the matter in question.

"We also wish to make reference to certain statements made in the opinion of the Commission; namely, that the American Company 'dominates and controls applicant'; that 'applicant, in carrying out the terms of this so-called license agreement, exercises no independent judgment'; that the 'so-called license contract or agreement is, in fact and in law, not a contract or agreement but is in essence a directive or requirement imposed upon applicant by the American Company'; and that in some undefined sense, there has been an 'abuse of intercorporate relations.'

"We most respectfully submit that these statements have no bearing on the point under consideration. Regardless of alleged 'domination,' the Commission in the exercise of its rate-making functions may, when justified by the evidence, disallow a part of a payment as an operating expense, and the jurisdiction of the Commission in this regard is not dependent upon a finding of domination. The recent

rate case involved no issue of domination; in the hearing thereof no issue was raised as to any possible abuse of intercorporate relations and no evidence whatever of such abuse was before the Commission. The fact is there is no dictation or domination by the American Company in the affairs of the Pacific Company."

In effect and substance, the response of respondent was, first, that this Commission has no jurisdiction or power to interfere with the license contract arrangement existing between it and its corporate holding company, the American Telephone and Telegraph Company (hereafter generally referred to as "American Company"); second, that, should respondent be so disposed, the American Company would not consent to a revision of said arrangement; and, third, that, in any event, this Commission should not interfere with such arrangement, alleging the same to be justified. Respondent stated its willingness to work with the Commission, either formally or informally, looking toward an adjustment of the matter satisfactory to all parties.

The Commission was of the opinion that respondent, by its action embodied in said response, had not complied satisfactorily with the aforementioned order and, being of such opinion, on August 24, 1948, issued the herein order to show cause, which order is hereby annexed to this decision, marked Exhibit "A," [omitted herein] and by reference is hereby incorporated herein for all intents and purposes. Hearing on said order to show cause was set for September 30 and October 1, 1948. After the issuance of this order to show cause, the American Company reduced the license fee from 1½ per

¹ National Association of Railroad and Utilities Commissioners.

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cent of respondent's gross revenues, with minor exclusions, to one per cent of a slightly higher revenue base, effective as of October 1, 1948, until further notice. The contemplated reduction was reported by the American Company to the NARUC Telephone Committee at its meeting in September, 1948. Respondent requested and was granted a continuance of the hearing of this proceeding to October 27, 1948.

At the opening of the hearing of this matter on said date, respondent seasonably filed its response and answer to said order to show cause, which response and answer are hereby annexed to this decision, marked Exhibit "B," [omitted herein] and by reference are hereby incorporated herein for all intents and purposes. At the same time, respondent duly moved to dismiss the proceeding and discharge the order to show cause on the ground that the Commission did not have jurisdiction to proceed with the same or to prescribe the rule or regulation envisioned by said order to show cause. Also, respondent contended that, assuming that power did reside in the Commission to prescribe such proposed rule or regulation, it should not do so, all the facts and the law being considered. Respondent also contended that the prescription of such a rule or regulation would deprive it of allegedly valuable services received by it pursuant to said license contract. This motion was taken under advisement with the understanding that it would be ruled upon at the close of the proceeding and after the same had been submitted for decision. For the reasons hereafter in this decision stated,

respondent's motion to dismiss is hereby denied.

A number of the municipalities and other interested parties participating in this proceeding, at the outset thereof, objected to the introduction of any evidence by respondent for the reason that the subject matter of the proceeding was *res judicata* and that respondent was in the contempt of the Commission for not having complied with the order contained in Decision No. 41416, *supra*. Said objection was overruled with the right to move to strike the evidence at the close of the proceeding, which motion to strike was duly made. This motion was withdrawn by the parties at the date of submission of this proceeding.

The herein proceeding went to hearing and continued intermittently until its final submission for decision on February 2, 1949. These hearings consumed fifteen days, were recorded in 1675 pages of transcript and 77 exhibits were received in evidence. Oral argument was had before the Commission in bank and memorandums of points and authorities were filed.

The order to show cause proposed the possibility of the Commission's requiring the respondent to show cause why it should not be ordered and directed to do the following things:

"(1) Refrain and desist from making further or any payments, directly or indirectly, or under any color or guise, or by any device, to the American Telephone and Telegraph Company, or any of its subsidiaries or affiliates, pursuant to the provisions of said so-called license contract;

"(2) Requisition, in writing, any and all services said respondent company reasonably requires performed

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for it by the American Telephone and Telegraph Company, its subsidiaries or affiliates, said requisition to be made in advance of and prior to the rendition of any service thereby requisitioned;

"(3) Require the American Telephone and Telegraph Company, its subsidiaries or affiliates, to render bills or invoices to said respondent company for any services rendered by them, or either or any of them, to said respondent company, and said respondent company to pay only the reasonable cost of services reasonably required by and rendered to it, but not in excess of the reasonable value of such service, or not in excess of the cost to said respondent company, if said services were performed by its own personnel;

"(4) File with this Commission monthly, not later than the 5th day of each and every month, a verified statement setting out in full for the immediately preceding month all requisitions for services made by said respondent company upon the American Telephone and Telegraph Company, its subsidiaries or affiliates, during said period; also all charges made during said period against respondent company for services rendered to it by the American Telephone and Telegraph Company, its subsidiaries or affiliates, and also showing, for the immediately preceding month, all payments made during said period by respondent company, and money or other consideration, directly or indirectly, or under any color or guise, or by any device,

to the American Telephone and Telegraph Company, its subsidiaries or affiliates, for any services rendered to respondent company by the American Telephone and Telegraph Company, its subsidiaries or affiliates."

[1-8] All pertinent history and evidence concerning this license contract were introduced into this record. The Commission is now fully, completely, and extensively advised as to the genesis, operation, and effect of this license fee arrangement, which exists between respondent and the American Company, denominated by them as "license contract" or "license agreement." In Application No. 28211, the Commission fully considered this license contract in connection with respondent's request for an increase of its telephone rates and, in rejecting the principle underlying this license fee arrangement based upon a percentage of gross revenues of the respondent and invoking the principle of allocated costs, we had occasion to express the following view thereof in said Decision No. 41416, 75 PUR NS at pp. 390-393, as follows:

"The Bell System operating companies have for many years paid to the American Company and charged to operating expense a 'license fee' comprising a percentage of their gross revenues.⁴ The fee is intended to compensate the American Company for advice, assistance and services which it furnishes to its associated operating companies under the 'license contract.' The license fee applicable to total California operations increased from \$1,-

⁴The license agreement between the Pacific and American companies specifies a fee of 2½ per cent of 'total gross earnings' (total revenues excluding certain minor accounts). However, the fee has been fixed at 1½ per

cent since 1929 by a letter of modification which provides also that the American Company can increase the fee to 2½ per cent upon four months' written notice."

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245,000 in 1937 to \$2,821,000 in 1946. The amount applicable to California intrastate operations for Test Period B, after adjusting for the effect of the three interim rate increases, was \$3,344,000.

"As justification for the license fee, applicant introduced evidence both as to the value of the advice and assistance and as to the American Company's costs and an allocation thereof to the Pacific Company system and the state of California.

"The fixed-percentage-of-revenue basis for the license fee was attacked as unsound by both witnesses and counsel. They pointed out that the amount of services received bore no direct relation to revenues. The fallacy of such a basis of payment is obvious when it is realized that the three interim rate increases which this Commission has granted have served to increase the license fee by approximately \$330,000 per year, with no appreciable resultant increase in the services rendered. Applicant's over-all request for rate increases, if granted, would increase the license fee by more than \$600,000 per year. The record contains testimony by a Commission staff witness that the American Company has agreed, as to principle, that services should be paid for on the basis of allocated costs rather than as a percentage of gross revenue.

"It is applicant's position, as testified to by Mr. H. C. Gretz, an assistant comptroller of the American Company, that all expenses and taxes incurred by the American Company's general department are properly allocable to the operating companies and the Long Lines Department, except for minor amounts (about 3 per cent

of the total) deducted as 'non-license,' and that the American Company is likewise entitled to a return of 6½ to 7 per cent for the year 1946 on about \$173,000,000 of 'capital employed in rendering services under license contracts.' Included in this amount were \$28,000,000 of working capital and \$127,000,000 of 'funds held available during year to meet cash requirements of licensees and Long Lines.' Based on this philosophy, Mr. Gretz concluded that American Company costs allocable to the Pacific Company's total California operations for the year 1946 amounted to more than \$4,000,000. He testified that all such costs would be proper charges to operating expenses of the Pacific Company.

"Mr. E. A. Hosmer, a witness for a number of cities in the Los Angeles area, contended there should be no charge to Pacific Company operating expenses in respect to the license contract, and that the Bell Laboratories costs should be charged to Western Electric Company and reflected in the prices of Western Electric products. He showed in an exhibit the estimated effect of this approach on the California operating results for Test Period A.

"Mr. Mors, the Commission's research engineer, made a determination of allocated service costs which he considered properly includible in applicant's operating expenses for both total California operations and California intrastate operations. He recognized that the American Company furnishes various services of value to the Pacific Company, but took the position that the Pacific Company's subscribers should not be required to pay costs which the American Company incurs

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as an investor in the operating companies. In the absence of records showing the amount of the investor expenses, he estimated their magnitude by applying to the American Company's investment holdings a factor based on the relationship of expenses to investment holdings in a number of utility holding companies whose subsidiaries are served by service organizations separate from the holding company. In determining the factor, Mr. Mors made allowance for the greater magnitude of the American Company's holdings. As to taxes, the staff witness included those taxes which would be incurred by a nonprofit service company without an investment interest in the companies serviced. He included also a 6 per cent return on the American Company's net investment in facilities employed in furnishing services to the operating companies.

"Mr. Mors concluded that the American Company's investors are not required to advance working cash capital with which to carry on that company's service functions, since an analysis made by him showed that the American Company receives the license fee payments almost four weeks in advance of the average time it must meet its expenses. He did not make a study of the amount of American Company funds 'held available' for the Pacific Company or the cost thereof, it being his position that such cost would not be a proper charge to Pacific Company operating expenses. The Commission staff's estimate of total allocated service costs properly chargeable to California operating expenses for both intrastate and interstate operations was \$2,395,000 for the year 1946 and \$2,393,000 for Test Period

B, and for intrastate operations alone, \$1,816,000 for Test Period A and \$1,843,000 for Test Period B.

"The difference between applicant's and the Commission staff's figures results almost entirely from different views as to the function of the American Company's general department. Applicant's position is that the general department holds its vast investments in the Bell System operating companies solely as a service to those companies and in the interest of an efficient nation-wide communication service, and that therefore all costs incurred by the general department should be passed on to the licensee companies and the Long Lines Department, except for minor amounts not related to the operating companies. The Commission staff witness agreed that the licensee companies should pay the cost of bona fide services which are of benefit to them, but contended they should not be required to pay also the costs which the American Company incurs as an investor in their securities. We are inclined to the latter view. While we realize that the amount of investor costs cannot be determined precisely, the staff's estimate appears reasonable. With respect to American Company's taxes, the Pacific Company's subscribers should not be required to pay income and other taxes which result from the American Company's earnings on its investments.

"Mr. Gretz' rebuttal criticism of the staff presentation, implying inconsistent treatment in allowing the return component of the American Company's investment in physical facilities devoted to this service and not including the cost of 'funds held available,' indicates a possible misunderstanding

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of proper regulatory procedure. It is well established that, in considering affiliated relationships, the cost of properties devoted to service should be included, irrespective of corporate lines. Mr. Mors has accomplished this by allowing a return on such properties.

"As to the 'funds held available' by the American Company, such moneys clearly have no place in a rate base, and we do not believe the cost of such funds is a proper charge to operating expense, being rather a financial cost to be met out of the net return to the extent that an independent company might find it necessary to do so. It would appear that ample compensation for any such costs is included in the interest charge of 2½ per cent on 'temporary advances,' which is in excess of competitive costs for temporary financing.

"The foregoing treatment accorded this so-called license agreement is based upon well recognized principles of law. It is an elementary rule of regulatory law, generally speaking, that a utility must bear the burden of showing by satisfactory evidence that all charges to operating expense are reasonable and have been reasonably incurred. (*Smyth v. Ames* [1898] 169 US 466, 547, 42 L ed 819, 849, 18 S Ct 418; *Lindheimer v. Illinois Bell Teleph. Co.* [1934] 292 US 151, 169, 78 L ed 1182, 1194, 3 PUR NS 337, 54 S Ct 658.)

"This rule applies with special emphasis where the charge to operating expense is a charge made against the utility by an affiliate or by a holding company, which dominates and controls the utility. (*Dayton Power & Light Co. v. Ohio Pub. Utilities Com-*

mission [1934] 292 US 290, 295, 298, 307, 78 L ed 1267, 1273, 1279, 3 PUR NS 279, 54 S Ct 647; *Columbus Gas & Fuel Co. v. Ohio Pub. Utilities Commission* [1934] 292 US 398, 400, 78 L ed 1327, 1329, 4 PUR NS 152, 54 S Ct 763, 91 ALR 1403; *Western Distributing Co. v. Kansas Pub. Service Commission*, 285 US 119, 124, 76 L ed 655, 658, PUR 1932B 236, 52 S Ct 283; *Smith v. Illinois Bell Teleph. Co.* 282 US 133, 152, 75 L ed 255, 265, PUR 1931A 1, 51 S Ct 65; *San Diego v. San Diego Consol. Gas & E. Co.* [1935] 39 Cal RCR 261, 274, 7 PUR NS 443.)

"In such circumstances, transactions between a utility and an affiliate are not binding upon a regulatory body or the ratepayers of such utility, and contracts existing between a utility and an affiliate have no validity in a rate proceeding unless the terms thereof are within the bounds of reason. (*Dayton Power & Light Co. v. Ohio Pub. Utilities Commission*, *supra*, at p. 295 of 292 US and p. 1273 of 78 L ed.)

"The evidence in this proceeding clearly demonstrates that the American Company dominates and controls applicant. Not only does the American Company have the opportunity for such domination and control resulting from its ownership of an overwhelming majority of applicant's stock, but the evidence shows that the former does actually dominate and control the latter. The testimony of Mr. Gretz demonstrates this to be the fact. Also, the evidence of the relationship between these two corporations, as carried out in actual practice, lends support to this view. Therefore, we find as a fact that applicant, in carrying out

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the terms of this so-called license agreement, exercises no independent judgment or will and the same is true concerning any action which the American Company directs applicant to carry out. It follows that the so-called license contract or agreement is, in fact and in law, not a contract or agreement but is in essence a directive or requirement imposed upon applicant by the American Company. We further find that the payment required to be made by applicant to the American Company pursuant to this so-called license agreement is arbitrary, unreasonable and unjust and bears no rational relationship to the reasonable cost of the services actually rendered to applicant by the American Company and its affiliates. Unlike the situation in *Smith v. Illinois Bell Teleph. Co. supra*, at p. 152 of 282 US and p. 265 of 75 L ed, we do have here directly in issue the abuse of intercorporate relations.

"In this connection, we point out that the Congress did not subject the American Company to the provisions of the Public Utility Holding Company Act of 1935.

"For the foregoing reasons, we have disregarded this so-called license agreement in arriving at a reasonable charge to operating expense for the services furnished to applicant by the American Company. We hereby adopt the amounts of allocated costs recommended by the Commission staff. We may add that applicant has not borne the burden of proving that any greater allowance for such charge to operating expense should be recognized by this Commission."

What we there said, we reaffirm here. Nothing has come into this

record, which changes in any way our view of this subject as expressed in Decision No. 41416, *supra*. The factual situation concerning this license contract is substantially the same today as it was when Decision No. 41416 was issued. The major difference is that the percentage payment has been reduced from $1\frac{1}{2}$ per cent to one per cent. The evidence of record in this proceeding all the more convinces us that what we said upon this subject in that decision was and is correct and was and is fully substantiated by both law and fact. We find as a fact from the evidence of record in this order to show cause proceeding that the American Company dominates, controls and directs respondent in its operations and administration; that respondent exercises no real, untrammelled and independent judgment in its negotiations, dealings and relationships with the American Company and, in arriving at understandings and agreements between respondent and said American Company, arm's-length bargaining is not, in fact, engaged in, although an attempt, in some instances, is made by said parties to simulate the same; that, in effect, said American Company, when dealing with respondent, is merely dealing with itself for the reason that respondent and all wholly-controlled operating subsidiaries of said American Company are treated as departments of one large nation-wide enterprise with operating and directing centralized control exercised by the American Company as the head or home office. The license contract, in and of itself, is evidence of domination of respondent by the American Company. The entire factual situation on this issue compels the

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conclusion and finding, and we do so hereby find, that the American Company does actually dominate and control respondent. A contrary holding would be entirely unrealistic. Domination, usually, must be proven by circumstantial evidence, for the reason that witnesses, rarely ever, will admit categorically that domination exists as a fact.

Decision No. 41416, *supra*, has long since become final and is binding upon the respondent. The order to show cause procedure was employed in connection with this subject to give respondent every opportunity to show, if it could, any possible justification for continuing to be a party to the license contract. That this Commission had and has jurisdiction and authority to regulate, in the public interest, respondent's participation in this license fee arrangement existing between it and the American Company, we entertain no doubt. The question was and is: *Should this Commission exercise its lawful regulatory authority in the circumstances?* We are of the opinion that this question must be answered in the affirmative.

[9] This license fee arrangement came into existence in the Bell System in the year 1880. It was changed to a percentage of gross revenues payment in 1902, the percentage being then established at $4\frac{1}{2}$ per cent. Over the years, this percentage payment has been gradually reduced to the present one per cent of gross revenues as a result of criticism and pressure brought to bear upon the American Company and its operating subsidiaries by regulatory bodies and courts. This license contract is in evidence in this proceeding as Exhibit No. 4. An

examination of this document, together with explanatory history, demonstrates that it is not an agreement reached by the process of arm's-length bargaining and negotiation. It is clearly a one-sided arrangement in favor of the American Company and prejudicial to the respondent and its ratepayers. We find said contract to be arbitrary, unreasonable and unjust and, in law and in fact, not a contract but merely a requirement imposed upon respondent by the American Company. It is here pointed out that, under the express term of the contract as it now reads, the American Company, on four months' notice, may increase the percentage payment to $2\frac{1}{2}$ per cent, without obtaining the consent of respondent. This contract works to the definite prejudice of the minority stockholders of respondent and to the unjust enrichment of the American Company, which owns 87.93 per cent of the capital stock of respondent, by its receipt not only of dividends as such majority stockholder but by the receipt of the percentage payments of gross revenues under this license arrangement. We shall advert to this phase of the situation later on in this decision.

[10] The evidence in this record demonstrates that the principle of allocated costs is the desirable principle to adopt in fixing rates for this respondent, so far as the charges made against it by the American Company for services are concerned. This principle is realistic and is followed by the American Company in its financial dealings with its own Long Lines Department. If this principle is correct as applied to the Long Lines Department of the American Company, what

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rational argument can be offered to demonstrate that the same principle is improper as applied to the respondent and other operating subsidiaries? There is evidence in this record that officials of the American Company generally admit the correctness of the principle underlying the allocated costs basis. Witnesses for the respondent, under cross-examination, conceded the validity of the allocated costs basis. Furthermore, this treatment is generally accorded the operating subsidiaries of the Bell System by courts and regulatory bodies in rate cases. Witnesses for respondent testified that the services rendered to respondent pursuant to said license contract were of a value in excess of the payments made by respondent thereunder. We find that such contention is not supported by the evidence.

Whether or not the amounts of money actually paid by respondent to the American Company for services rendered to the former by the latter under this license contract, by coincidence, may approximate the correct charge to be made by the American Company, is wholly beside the point. It is the *device* employed that we are here concerned with, the proper regulatory rule to promulgate, the proper principle to adopt, which will give *correct results* in all situations and not in accidental situations. The percentage of gross revenues device is totally unrealistic and bears no rational relationship to the reasonable cost of services rendered, reflects no causal or proximate connection or relationship between payments made thereunder and reasonable value of the service rendered and is neither supported by law, logic, nor elementary common

sense. The principle involved in the license contract, we find to be erroneous; the device employed, the percentage payment, we find to be a false measuring rod. Therefore, such device should not be permitted to stand as a continuing burden upon the minority stockholders of respondent and as a constant threat to the interests of the ratepayers and as a constant temptation to respondent, under the direction of the American Company, to use the payment of these excessive amounts as expenses as a constant argument in support of pleas for rate increases.

Rate making is that process whereby past experience is projected into the future as a basis for prescribing rates to be charged by a public utility. If the past experience used is false or contains any element of falsity, to that extent will the forecasts for the future be false. It is our opinion that this false quantity resulting from the operation of this license contract should not be allowed to continue to confound rate proceedings in the future.

[11-13] It is conceded by all that this Commission may disallow, for the purpose of rate fixing, any improper amounts paid by respondent under this license fee contract. It, therefore, follows that this Commission may take all reasonable measures to prevent the occurrence of that which it has the power to reject.

It is elementary that a regulatory body may take all reasonable and necessary action to reach a permissible end and that in reaching such end or objective it may fashion tools and instrumentalities best calculated to achieve that lawful end. There is a presumption of the existence of a state

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of facts sufficient to sustain such end, if any such state of facts reasonably can be conceived. (*Pacific States Box & Basket Co. v. White* [1935] 296 US 176, 185, 186, 80 L ed 138, 146, 56 S Ct 159, 101 ALR 853; *Thompson v. Consolidated Gas Utilities Corp.* [1937] 300 US 55, 69, 81 L ed 510, 518, 57 S Ct 364.)

We are here prescribing a statute, so to speak, in the Commission's legislative capacity, not unlike a statute or rule prescribing an accounting requirement or regulation in aid of regulatory jurisdiction. It is not the question of the *existence* of power that we are concerned with but rather with a possible abuse of power. All power may be abused but that is no argument against its existence. However, we see here no possible abuse of power.

Under the broad regulatory power granted to this Commission over the fixing of rates, the issuance of securities and the general regulation and supervision of public utilities as prescribed by the state Constitution and the Public Utilities Act enacted pursuant to such Constitution (bearing in mind that the legislature has conferred upon this Commission power to regulate and supervise public utilities unlimited by any provision of the state Constitution), it is our opinion that the authority of this Commission to prescribe the rule and regulation envisioned by the order to show cause herein is quite obvious. The proposed rule and regulation lawfully could be promulgated by this Commission as a necessary incident to its power to fix rates, and to abate unreasonable, unjust and improper practices. (Section 35, Public Utilities Act. *American*

Teleph. & Teleg. Co. v. United States [1936] 299 US 232, 246, 81 L ed 142, 153, 16 PUR NS 225, 57 S Ct 170.)

Such rule and regulation lawfully could be prescribed by the Commission under its authority to control the issuance of securities. It is clear that a rule and regulation of this nature is absolutely necessary to protect minority stockholders of this respondent because of the fact that the majority stockholder (the American Company) of respondent receives not only dividends on the 87.93 per cent of the capital stock of the respondent, which the American Company holds, but also receives the percentage of gross revenue payments under the license contract. Any excessive payment under the license contract diminishes to that extent income that might be devoted to dividends and that is exactly what happens as regards the minority stockholders of respondent. However, the American Company is concerned not at all with this situation because of the fact that the diminution of income by payments made under the license contract goes into the treasury of the American Company. It is a public duty of this Commission to protect these minority stockholders and the prescription of the rule and regulation envisioned by this order to show cause is best calculated to afford that protection. Furthermore, the excessive payments made to the American Company by this respondent under the provisions of the license contract are charged to operating expenses of this utility and the accounting records of the respondent reflect these excessive payments. Thus, the financial picture that respondent presents to this Com-

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mission is one reflecting these excessive charges to operating expenses. This financial picture, the respondent uses in its argument to this Commission in support of its requests for rate increases.

In our opinion, this Commission has plenary power and authority to prevent this respondent from continuing to present a financial picture that contains this false quantity. The authority to remove an evil carries with it a concomitant authority to take the necessary measures to prevent that evil from occurring or continuing. Under the Commission's plenary authority to prescribe accounting practices for public utilities, such a rule and regulation could and should be issued. The uniform interpretation announced by the courts with regard to the authority of regulatory bodies to prescribe uniform systems of accounts leaves no possible doubt that the prescription of this type of rule or regulation would well come within the power of this Commission. We will refer more specifically to this particular subject later on in this decision.

It is a familiar rule of law that matters normally not subject to regulation by a particular governmental authority may become subject to such regulation where it becomes necessary to regulate them in aid and protection of the power to regulate matters admittedly subject to regulation by the particular governmental authority. For instance, Federal regulatory bodies may regulate intrastate matters—otherwise prohibited by the Federal Constitution—, where it becomes necessary to regulate such intrastate matters in aid and protection of the admitted power of such agencies to regulate interstate matters.

Likewise, the Supreme Court of the United States has held that the Federal Power Commission may value purely intrastate property, wholly exempt from its general regulatory jurisdiction, as an incident and an aid to its general regulatory power over interstate public utilities. (*Colorado Interstate Gas Co. v. Federal Power Commission* [1945] 324 US 581, 597-605, 89 L ed 1206, 1220-1224, 58 PUR NS 65, 65 S Ct 829; *Panhandle Eastern Pipe Line Co. v. Federal Power Commission* [1945] 324 US 635, 639-649, 89 L ed 1241, 1246-1251, 58 PUR NS 100, 65 S Ct 821.)

The evidence in this proceeding indicates that requisitioning of services may be a desirable procedure. Should actual experience, under the regulation we will prescribe herein, demonstrate that requisitioning is necessary, we shall further address ourselves to such subject at that time.

[14] A requirement that respondent pay no more for services than the reasonable cost to the American Company of performing them or the reasonable value of such services, whichever is lesser, requires no more than the law itself requires and good regulatory practice demands. (*American Teleph. & Teleg. Co. v. United States*, *supra*; 299 US at p. 246, 81 L ed at pp. 152, 153, 16 PUR NS 225; *United States v. New York Teleph. Co.* [1946] 326 US 638, 654, 90 L ed 371, 381, 62 PUR NS 65, 66 S Ct 393.) In the *New York Telephone Company Case*, the Supreme Court points out that a holding company is not entitled to profit at the expense of its subsidiary. (P. 654 of 326 US.) If it can be said that the intercorporate

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relationships existing between the American Company and the respondent are so commingled and interwoven that such relationships would render it difficult for the respondent to comply with the rule and regulation herein promulgated, the ready answer is that such situation is of the respondent's own making and that of the American Company. It lies within the power of the American Company to simplify these relationships. Having not seen fit to do so, respondent and the American Company must bear any brunt that results from these relationships, when subjected to lawful regulation.

The contention by the respondent that such a rule and regulation would invade the domain of management is the contention that utilities have always made when faced with threatened regulation. Of course, all regulation, to some degree, invades the domain of management and such regulation became necessary because management had not performed its function properly. Section 31 of the Public Utilities Act provides as follows:

"The Railroad Commission" [now the Public Utilities Commission] "is hereby vested with power and jurisdiction to supervise and regulate every public utility in the state and to do all things, whether herein specifically designated or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction."

Were this provision not embodied in the Public Utilities Act, under the well-recognized principle of necessary and incidental powers, it would be implied.

We perceive no conflict with the Federal power in issuing herein the

regulation, which we will prescribe, for the reason that its application will involve, as to rate regulation and accounting practices, only intrastate operations. As to regulation of securities issues of this respondent, this Commission's authority is not questioned because of the fact that the Federal power has not occupied this field, thus leaving this area of regulation to the several states.

[15, 16] All contracts, no matter how lawful or valid, and property rights, no matter how long vested, are subject to impairment and even destruction by the lawful exertion of the police power of the state. The contract clause of the Federal Constitution affords no protection. This rule is elementary. The regulatory power exercised by this Commission is a branch of the police power.

The contention made by the respondent that requiring the respondent to abandon the license contract and to pay no more than the reasonable cost of the services furnished to it by the American Company would confiscate the property of the American Company overlooks entirely the presence of the police power. Obviously, any action taken by this Commission that would remove any financial burden from the shoulders of the Pacific Company would not confiscate the property or property rights of the Pacific Company or prejudice it in any way. Conversely, the American Company could not gain a vested right in any unlawful or improper conduct it might engage in with its subsidiary, the Pacific Company. It must be borne in mind that special rules of law apply to the relationships existing between a dominating holding company and its sub-

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subsidiaries and affiliates. What might be proper for two corporations to do, when dealing at arm's-length, might be highly improper for two corporations to do sustaining the same relationship one to the other as is the case with the American Company and this respondent. So, assuming for the purpose of argument only that the license contract is a valid one even as applied to the special relationship existing between the respondent and the American Company, it does not follow that this Commission has not plenary authority and power to compel action on the part of the respondent that, in effect, would destroy entirely the relationship based upon this contract. Furthermore, we here point out that the relationship existing between this dominating holding company (owning, as it does, 87.93 per cent of the capital stock of respondent) and its subsidiary is a particularly appropriate subject for the operation of the police power because of the evils so often inhering in such a relationship. (*American Teleph. & Teleg. Co. v. United States* [1936] 299 US 232, 246, 81 L ed 142, 152-153, 16 PUR NS 225, 57 S Ct 170.)

Additionally, it is here pointed out that the prescription of the type of rule and regulation, as is envisioned by the order to show cause, would be analogous to an accounting regulation or procedure. The uniform systems of accounts imposed upon public utilities by such agencies as the Federal Power Commission, Federal Communications Commission, Interstate Commerce Commission, and many of the state Commissions (including this Commission) require public utilities to write off hundreds of millions of dollars worth of alleged assets and the

courts have held uniformly that such requirement is perfectly valid. The utilities have generally contended that the imposition of such systems of accounts confiscates their property and denies them due process of law and the equal protection of the law. These are the contentions made by the respondent in the present proceeding. Any rights which this respondent or the American Company may claim under this alleged license contract are no more sacred than the rights claimed by the utilities to carry in their property accounts hundreds of millions of dollars worth of claimed assets, which the courts have uniformly held may be required to be written off under uniform accounting regulations. The Supreme Court of the United States has held that an accounting regulation will be upheld by that Court unless such regulation be so entirely at odds with fundamental principles of correct accounting as to be the expression of a whim rather than an exercise of judgment. (*United States v. New York Teleph. Co.* [1946] 326 US 638, 655, 90 L ed 371, 382, 62 PUR NS 65, 66 S Ct 393; *American Teleph. & Teleg. Co. v. United States*, *supra*, 299 US at p. 246, 81 L ed at p. 152, 16 PUR NS at p. 234.) The foregoing two cases decided by the Supreme Court of the United States are especially appropriate to be considered in this proceeding for the reason that those cases involved the same corporate combine which is involved in this proceeding.

Based upon the evidence in this record, the Commission finds as follows:

1. That it is contrary to the public interest, the interest of respondent and

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its minority stockholders and constitutes a continuing prejudicial threat to the interest of the ratepayers for respondent, directly or indirectly or under any color or guise or by any device whatsoever, to continue to make percentage of gross revenues payments to the American Company pursuant to the provisions of said license contract.

2. That it is in the public interest to order and direct respondent forthwith to discontinue such payments to the American Company pursuant to the provisions of said license contract.

3. That it is in the public interest for this Commission to promulgate and to order and direct respondent to comply with the rule and regulation, which will be prescribed in the order following this opinion.

We are definitely of the opinion that this Commission should exercise its jurisdiction and authority in the premises to regulate in the public interest the respondent's participation in this license fee arrangement. The following order will provide for such regulation, which we hereby find to be in the public interest, the interest of respondent and the interest of the minority stockholders of respondent. Said regulation we hereby find not to be adverse or contrary to the legitimate and lawful interests of the American Company or any of its subsidiaries or affiliates.

The evidence in this record shows that, as applied to its California intrastate operations, \$2,250,000 is a proper amount for respondent to charge, at this time, to operating expenses, on an annual basis, for services rendered to it pursuant to said license contract and we hereby find said amount to be the reasonable value of said services

and the reasonable cost for performing the same. The order contained in this decision will prescribe such requirement as a part of the regulation, which will be promulgated in said order. Any increase of the amount of \$2,250,000 must receive the prior approval of the Commission before respondent may pay such increase. Of course, if said services should fall either in reasonable value or in reasonable cost below the amount of \$2,250,000, respondent will be required to conform its payments to such facts and reduce said amount accordingly.

ORDER

The within order to show cause having been duly issued and hearings having been duly held thereon and said matter having been submitted for the decision of this Commission, and the Commission being fully advised in the premises,

It is hereby *ordered* that, as applied to its California intrastate operations, respondent, The Pacific Telephone and Telegraph Company, hereafter, shall pay to the American Telephone and Telegraph Company, for services rendered by it or any of its affiliates to respondent, no more than the reasonable cost incurred in the rendition of such services or the reasonable value of said services, whichever is the lesser. That in determining the reasonable value of any service rendered, consideration shall be given, among other things, to what it would reasonably cost respondent to perform such service with its own organization. Services rendered to respondent, which, in the judgment of the Commission, are not reasonably required by respondent shall not be paid for by respondent. Neither re-

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spondent nor any officer, agent or servant of respondent, by any device whatsoever or under any pretense or guise, directly or indirectly, shall commit any act or engage in any conduct which shall be calculated to circumvent or evade the intent of this order.

It is hereby *further ordered* that respondent shall file with this Commission, by-monthly, a verified report showing for the immediately preceding 2-calendar-month period all payments made by respondent to the American Telephone and Telegraph Company for services rendered to respondent by said American Telephone and Telegraph Company and/or any of its affiliates, together with an itemization of said services and the amount paid by respondent for each type of service rendered, such report to be filed not later than forty days after the close of the period, which it covers. Said verified report shall show, for each type of service rendered, the total cost incurred by the American Telephone and Telegraph Company or its affiliates in the rendition of said service to respondent, and the payment therefor by respondent on an allocated basis, segregated as to company-wide, total California and California intrastate operations. The first report shall be for the months of January and February, 1949, and shall be filed on or before April 9, 1949.

It is hereby *further ordered* that, as applied to its California intrastate operations, the amount of \$2,250,000, on an annual basis, shall be adopted by respondent as the base and starting point for the program and procedure prescribed by this order and respondent shall be entitled to pay, on an annual basis, to American Telephone and

Telegraph Company said amount for services rendered to respondent by American Telephone and Telegraph Company and/or its affiliates pursuant to said license contract. Provided, however, that said amount shall be adjusted to a lesser or greater amount as the facts and circumstances may warrant, but, in no event, shall respondent pay more than \$2,250,000, on an annual basis, without first seeking and receiving the authority of this Commission so to do.

This decision shall become effective after the expiration of twenty days from and after the date hereof.

CRAEMER, Commissioner: I concur in that part of the majority order reading: "as applied to its California intrastate operations, respondent, The Pacific Telephone and Telegraph Company, hereafter, shall pay to the American Telephone and Telegraph Company, for services rendered by it or any of its affiliates to respondent, no more than the reasonable cost incurred in the rendition of such services or the reasonable value of said services, whichever is the lesser. That in determining the reasonable value of any service rendered, consideration shall be given, among other things, to what it would reasonably cost respondent to perform such service with its own organization" and "as applied to its California intrastate operations, the amount of \$2,250,000, on an annual basis, shall be adopted by respondent as the base and starting point for the program and procedure prescribed by this order and respondent shall be entitled to pay, on an annual basis, to American Telephone and Telegraph Company said amount for services rendered to respondent by American

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Telephone and Telegraph Company and/or its affiliates pursuant to said license contract. Provided, however, that said amount shall be adjusted to a lesser or greater amount as the facts and circumstances may warrant."

This procedure, though the record may not definitely establish the actual result, is a reasonable and wholly proper course to pursue in a rate proceeding. The difference in the charges

under the present license contract provision and the maximum base and starting point proposed by the order is approximately \$250,000 before income taxes. A test of the proposed method as set forth in the order will readily establish its actual cost and the extent to which savings can be made.

ROWELL, Commissioner: I dissent from the foregoing opinion and order.

FEDERAL POWER COMMISSION

Re Sho-Me Power Corporation

Docket No. E-6172
December 9, 1948

APPPLICATION for authority to sell electric utility facilities;
dismissed for want of jurisdiction.

Consolidation, merger, and sale, § 4.4 — Jurisdiction of Federal Power Commission — Local distribution facilities.

The sale of an electric company's facilities used in the local distribution of energy transmitted in interstate commerce, not involving the sale of all of its facilities, is not subject to the requirements of § 203 of the Federal Power Act, 16 USCA § 824b, and therefore an application for authority to sell the same should be dismissed for want of jurisdiction.

By the COMMISSION: Sho-Me Power Corporation (hereinafter "applicant"), a corporation having its principal business office at Marshfield, Missouri, filed its application on October 20, 1948, pursuant to § 203 of the Federal Power Act, 16 USCA § 824b, for an order authorizing it to sell certain of its electric utility properties and facilities.

It appears to the Commission that:

(a) Applicant proposes to sell to the city of Cuba, Missouri, those facil-

ities comprising the 2300/240/120 volt electric system owned by applicant within the corporate limits of the city of Cuba, for a base price of \$55,680.

(b) Applicant proposes to sell to the Ozark Border Electric Cooperative those electric facilities owned by applicant in and around the city of Puxico, Missouri, consisting of a 200-kilowatt internal combustion generating plant, a 13.8/2.3-kilovolt substation, approximately 10.85 miles of

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13.8-kilovolt transmission lines, approximately 5.13 miles of 2,300-volt distribution lines and certain miscellaneous properties. The base price for the properties to be sold to the Ozark Border Electric Cooperative is \$65,522.

(c) Applicant proposes to sell to the Scott-New Madrid-Mississippi Electric Cooperative the electric facilities consisting of approximately 27.21 miles of 13.8-kilovolt transmission lines, 10 miles of 2,300-volt lines, 4 substations and the electric distribution systems in the communities of Advance, Bell City, Heagy, Messler, Pointon, Perkins, Randles, and Sturdivant, all in Missouri, totaling about 8.36 miles of 2,300-volt lines. The base price for these properties is \$98,068.

(d) Written notice of the aforesaid application has been duly given to the Public Service Commission of Missouri and to the governor of that state. Notice of the application was also published in the Federal Register on October 27, 1948 (13 FR 6304) stating that any person desiring to be heard or to make any protest with reference to the application should file a petition or protest on or before November 10, 1948. No protest or petition or request to be heard in opposition to the granting of such application has been received.

(e) The Public Service Commission of Missouri, by order dated September 16, 1948, has approved the transactions set forth above.

The Commission finds that:

(1) Applicant is a corporation organized and existing under and by virtue of the laws of the state of Missouri. It owns and operates facilities, among others, for the transmission and sale at wholesale of electric energy which is transmitted from the states of Arkansas and Kansas and consumed at points outside the state in which it was generated, which facilities are in addition to and do not include facilities for the generation of electric energy, facilities used in local distribution, or only for the transmission of electric energy in intrastate commerce, or facilities for the transmission of electric energy consumed wholly by the transmitter. Applicant is, therefore, a public utility within the meaning of that term as used in § 203 of the Federal Power Act, *supra*.

(2) The proposed transactions referred to in paragraphs (a), (b), and (c) above, do not involve the sale by applicant of all of its facilities, or of facilities presently used for the transmission or sale at wholesale of electric energy in interstate commerce within the meaning of the Federal Power Act, except that the facilities referred to in paragraph (a) above are used in such transmission but all of those facilities are used in the local distribution of the energy so transmitted. All of such transactions are therefore not subject to the requirements of § 203 of the Federal Power Act, *supra*.

The Commission orders that the application be and the same hereby is dismissed for want of jurisdiction.

Re Hugoton Gas Field

Docket No. 35,154-C (C-1868)

February 23, 1949

APPPLICATION of certain royalty owners in gas field requesting orders as to fixed price and measurement regulations; minimum price fixed pending further investigation.

Procedure, § 13 — Scope of proceeding — Gas regulation.

1. A proceeding on the application of royalty owners in a natural gas field requesting orders as to a fixed price for gas at the wellhead is not an appropriate proceeding for Commission consideration of changes in standards for measurements of gas taken from the wells, p. 152.

Commissions, § 17 — Source of jurisdiction — Constitution and statutes.

2. Jurisdiction which the Commission has must necessarily arise through constitutional authority, inherent powers, or statutory authority, p. 155.

Gas, § 9 — Conservation — Avoidance of waste.

3. A fundamental and underlying requirement of the gas conservation statute is that the production of natural gas in such manner and under such conditions and for such purposes as to constitute waste is prohibited, p. 155.

Gas, § 3 — Duties of Commission — Prevention of waste.

4. The Commission is required by the gas conservation statute to promulgate rules and regulations for the prevention of waste of natural gas, and the Commission is authorized to employ any and all means to prevent the waste of gas, p. 155.

Gas, § 2 — Powers of state — Protection of landowners.

5. The state has power through an appropriate body to impose reasonable regulations to prevent waste in the production, handling, and marketing of gas, and the state may make reasonable regulations for the protection of landowners and other parties in interest in taking gas from a common source of supply and prevent a group of individuals from taking undue proportions thereof to the detriment of others, p. 156.

Gas, § 9 — Conservation — Waste from differentials in price.

6. Inequities and discriminations in price among the various parties in interest involved in the production, handling, and marketing of natural gas give rise to waste, and the Commission is required to take steps for the conservation of gas from common sources of supply and to see that inequities do not arise so as to be violative of correlative rights in the field, p. 156.

Gas, § 3 — Powers of Commission — Natural gas price at wellhead.

7. The Commission has authority and power under the gas conservation statute to resolve and adjust inequities in prices paid to landowners, in order to retard the wastage of gas by prices that are so low that waste results therefrom, p. 156.

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Commissions, § 11 — Implied jurisdiction.

8. Commission jurisdiction may be reasonably drawn by implication from statutes delegating authority to the Commission, p. 157.

Gas, § 3 — Jurisdiction of Commission — Minimum price at wellhead.

9. The Commission has jurisdiction, under the gas conservation statute, to establish a minimum fixed price at the wellhead for natural gas when fixing a minimum price is a necessary or appropriate regulatory means of giving effect to the intent and purpose of the statute relating to the production and conservation of natural gas, p. 158.

By the COMMISSION: At the outset of this opinion it is well to observe that the categorical question to be considered is whether the Commission can assume jurisdiction and entertain the amended application filed herein as it relates to its authority and power to fix the price of natural gas at the wellhead. Other questions may not be resolved until this jurisdictional question is determined.

To compendiously narrate the sequence of events leading to the conclusion in the determination of the jurisdictional question is considered desirable. This proceeding was initiated by the filing of an application on February 6, 1948, by the Southwest Kansas Royalty Owners Association and certain individuals as applicants in which it was requested that the Commission issue orders as to a minimum fixed price¹ at the wellhead and prescribe measurement regulations in the Hugoton Gas Field² of Kansas. The association represents landowners, royalty owners, and producers in the field and the individual applicants were for the most part landowners and royalty owners. Subsequent to the filing date, pleadings were filed by certain pipeline companies as protestants and intervenors which are not of sufficient

import to require elaboration here except to point out that the question of the Commission's jurisdiction in the matter was timely raised.

The Commission issued a notice for a hearing for July 19, 1948, which hearing, the notice related, was for the sole purpose of presenting and hearing oral and written arguments as to the legal questions involved including jurisdiction. Hearing was held on July 19 and 20, 1948, at which time appearances were entered on behalf of the applicants, Northern Natural Gas Company, Panhandle Eastern Pipe Line Company, Kansas-Nebraska Natural Gas Company, Columbian Fuel Corporation, Western Natural Gas Company, Kansas Power and Light Company, Cities Service Gas Company and the Commission. Various pleadings were filed and arguments made including those which again raised the question of jurisdiction.

On August 4, 1948, an amended application was filed which included other applicants who were producers in the field. The additional applicants were White Eagle Oil Company, a corporation; Benedum-Trees Oil Company, a corporation; Trees Oil Company, a corporation; Pioneer Pe-

¹ Further reference to "price" in the opinion refers to wellhead price unless otherwise stated.

² Further reference to "field" in the opinion refers to the Kansas portion of the Hugoton Gas Field unless otherwise stated.

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troleum Company, a corporation; Kinney-Coastal Oil Company, a corporation; and Howard Kuhn and Walter Kuhn, as individuals. Subsequent public hearings were held on October 18-22, 1948, inclusive, and on December 13-15, 1948, inclusive, respectively. Various pleadings were filed and orders entered in the interim from the inception of this proceeding to the final hearing in December. These are not deemed sufficiently important to discuss here with one exception and that is to point out that the Commission in an order dated October 7, 1948, *inter alia*, related that it had not determined the question of jurisdiction raised by a previous motion to dismiss. At the hearings in October and December the Commission permitted the applicants to present their case in chief, reserving the determination of the jurisdictional question until a later date. Although the protestants and intervenors were accorded the privilege of offering evidence, only one, Kansas-Nebraska Natural Gas Company, did so.

Legislative History

The Commission is a creature of legislative enactment. All of its authority, duties, powers, and jurisdiction are delegated to it by the legislature. The predecessor commissions were strictly public utility regulatory bodies. The State Corporation Commission was created in 1933 and all powers, duties, authority, and jurisdiction of its immediate predecessor were conferred upon the newly created commission.³

In 1935 the Kansas legislature

adopted the first general gas conservation statute.⁴ The Commission was by this act vested with the authority of administering this new law which dealt with the production and conservation of natural gas in the state. The gas conservation statute was rewritten in 1945.⁵ The new act did not in any materiality, as it respects this proceeding, amend or modify the original act. What the new act essentially accomplished was to strengthen the gas conservation laws and the position of the Commission in fulfilling its obligation to the state.

In furtherance of carrying out the mandate of the legislature, the Commission on March 21, 1944, promulgated the Basic Proration Order for this field.⁶ Likewise, by legal order there has been adopted the General Rules and Regulations for the Conservation of Crude Oil and Natural Gas.⁷ The Hugoton Gas Field is one of the largest gas fields in the world. In comparatively recent years the field has developed rapidly and has experienced a remarkable growth. The state is now penetrated by numerous pipe lines which transport gas from the field to markets not only in Kansas but to those in the states of Colorado, Wyoming, Nebraska, South Dakota, Iowa, Minnesota, Missouri, Illinois, Indiana, Ohio, and Michigan. During 1948 the total withdrawals from the field exceeded 166 million thousand cubic feet.

Measurement Regulations

[1] Before we take up a discussion as to the power and authority of the Commission to fix the price of natural

³ Laws 1933, Chap 275; Laws 1933, Chap 79 (Special Session).

⁴ Laws 1935, Chap 213.

⁵ Laws 1945, Chap 233.

⁶ Docket No. C-164, Order No. 44-3-21.

⁷ Rule 82-2-100 et seq.

RE HUGOTON GAS FIELD

gas at the wellhead, we desire to treat briefly two phases of the amended application relating to measurement standards and ratable taking.

While regarded as of secondary importance in this proceeding, it needs amplification in a few minor details. That the Commission has the authority and power to prescribe and establish measurement regulations cannot be denied. The Commission's general rules and regulations relating to the conservation of natural gas provide in Rule 82-2-201, a definition for a "cubic foot" of gas which is statewide in effect. This definition was established under authority of GS 1947 Supp 55-704, pursuant to notice and after public hearing.

We interpret the applicants' contention here to be that the pipe-line companies and purchasers are buying gas on one measurement basis at the wellhead and then selling it after transportation to some distant point on another basis, all of which is to the advantage of the pipe-line companies and purchasers. A perusal of some of the gas purchase contracts in this record reflects that the measurement standard of the Commission, as prescribed in the above-mentioned rule, has been incorporated in these contracts. There may be merit in the contention that the standards of measurement of a "cubic foot" of gas should be uniform.

We are of the opinion, however, that this is not an appropriate proceeding for us to consider changes in measurement standards. Changes in the definition of measurement units should be accomplished at a public statewide hearing and be applicable to all natural gas fields in the state alike.

We do not construe the amended application as contending in this respect that we should change our general rules and regulations, however, if changes were made for only this field, it would discriminate to the detriment of the other gas fields in Kansas. Therefore, the Commission concludes that it cannot grant the applicants the relief sought in this respect in this proceeding.

We are by an appropriate order this day instituting an investigation in Docket No. 34,780-C (C-1825) to determine whether the variances of units of measurement at which natural gas is being purchased, sold and resold in Kansas permits the compilation of accurate statistical data of the gas fields of Kansas; presents correct tabulations of the amounts of gas withdrawn from said fields; produces inequalities in assessment and taxation; causes confusion for accounting and analytical purposes; is conducive to waste; is discriminatory against various parties of interest and whether peculiar inequities are created because of the variances in units of measurement.

Ratable Taking

The request of applicants for a regulation requiring pipe-line companies and purchasers to take and produce ratably from each developed lease in the field has been carefully considered. The Commission is of the opinion that the evidence offered by the applicants does not suffice to prove their contention in respect to ratable taking. The Commission is this day, however, entering an order on its own motion in Docket No. C-164 for the purpose of determining whether existing orders, rules, and regulations are sufficient in

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scope to require ratable taking from each and every well in the field; whether the practice of ratable taking from each and every well in the field exists; whether individual well problems as to ratable taking should be considered and governed by separate orders, or whether under the existing orders, rules, and regulations it is necessary to make amendments, alterations and changes for the protection of correlative rights; conservation of natural gas; orderly development of the field; ratable taking, and for such other action as the Commission may deem just and proper in the premises.

Field History

The history of the field is a novel and romantic one and for a background of this controversy about price and price fixing, certain historical data should be recounted. Gas was first discovered in commercial quantities in the field in 1922, but it was not until 1927 that the generally accepted discovery well was drilled. The next few years, following the trend of worldwide economic conditions, active development in the field was thwarted due to the depression. The pioneers in the field were for the most part individuals and small concerns without substantial and adequate financial resources. During the middle thirties big pipe-line companies began to acquire extensive acreages, which activity culminated in a race among themselves to develop markets for the commercial sale of gas in the states heretofore mentioned. The present known area of the field underlying nine counties of Kansas is approximately 65 miles long and 40 miles wide. As of February 1, 1949, there

were 1,400 wells^a taking gas from this common source of supply. It is anticipated that when the ultimate development of the field is reached the total number of the wells will be approximately 3,000. The estimated reserves of the Hugoton Gas Field which extends into Oklahoma and Texas is 20 trillion cubic feet with an estimated 12 to 14 trillion cubic feet in the Kansas portion, the estimates differing somewhat according to the pressure base and the abandonment pressures used.

For many years Hugoton gas had only nominal value, if any, primarily because there were no transportation facilities to deliver it to available potential markets. The seller in those years found himself in a buyer's market and strangely enough much acreage went begging for the want of a buyer. Consequently, competitive bidding for acreage was lacking from the inception of the field until comparatively recent times. The landowners actually were in the position of accepting what they were offered for the right to explore their lands for gas and then frequently on unconscionable terms. The lease contracts always entered into obligated the landowners for long terms of years and in most instances for the life of the field. It cannot be fairly said that the intrinsic value of the gas was a part of the consideration for the contracts between seller and purchaser. That inequities in price exist and have existed in the field in astounding proportions is generally conceded.

The Commission has been gravely concerned in the public interest over a period of time as to the heavy withdrawals of this irreplaceable natural

^a February, 1949, status report.

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resource from the vast common source of supply, but more in particular has it been disturbed by the low price being paid at the wellhead to the landowners and royalty owners. It unequivocally cannot be said that fair and reasonable prices at the wellhead have prevailed for this great natural resource as a fuel. Furthermore, no semblance of economic values will sustain a contention that the price of natural gas from the field is comparable in price to other fuels, namely, coal and oil. The price of gas is substantially and considerably less.

It is not fiction, but a reality, that there are inequities in the price of gas in the field at this writing. Wells side by side, in the knowledge of the Commission, will reflect wide variations in price and the price of gas at the wellhead, at the present time, bears no substantial relationship to the price at the burner tip.

Fundamental Legal Precepts

[2] Jurisdiction which the Commission has must necessarily arise through constitutional authority, inherent powers or statutory authority. That the Commission has no constitutional authority is obvious and no inherent powers attain, therefore, as it possesses only statutory authority, such authority must be explored to determine if jurisdiction can be asserted in this instance.

[3, 4] A fundamental and underlying requirement of the gas conservation statute is that the production of natural gas in such manner and under such conditions and for such purposes as to constitute waste is prohibited.⁹

Waste is defined¹⁰ by the legislature as follows:

"That the term 'waste' as herein used in addition to its ordinary meaning shall include economic waste, underground waste and surface waste. Economic waste, as used in this act, shall mean the use of natural gas in any manner or process except for efficient light, fuel, carbon black manufacturing and repressuring, or for chemical or other processes by which such gas is efficiently converted into a solid or a liquid substance. . . ."

If the Commission has the power and authority to fix the price of gas, can it do so under the provisions of the gas conservation act pertaining to waste?

The modern day concept of conservation is that it is the state's duty on behalf of the general public to prevent wasteful exploitation of its irreplaceable natural resources. Conservation is the antithesis of waste in any form. The law does not recognize the indisputable right to produce gas as an exclusive right but predicates the right on the ability to do so without waste.

The plain legislative intent that the wastage of gas be prohibited is so clear and so explicit that none can deny that the legislature meant that waste of natural gas was not to be tolerated. It went further than that, it said that the Commission should promulgate rules and regulations for the prevention of waste. The legislature did not use the term, "may," but said "shall."¹¹ In other words the Commission has been authorized to employ any and all means to prevent the waste of gas.

⁹ G. S. 1947 Supp. 55-701.

¹⁰ G. S. 1947 Supp. 55-702.

¹¹ G. S. 1947 Supp. 55-704.

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[5-7] The Commission has broad and comprehensive powers that are manifest by the clear reading of the gas conservation statute. It is well recognized that the state has the power through an appropriate body to impose reasonable regulations to prevent waste in the production, handling and marketing of gas. The state may make reasonable regulations without doubt for the protection of landowners and other parties of interest in taking gas from a common source of supply and prevent a group of individuals from taking undue proportions thereof to the detriment of others.

Inequities and discriminations in price among the various parties of interest lead only to the logical conclusion that waste arises from differentials in price. The statute is definitely specific that this Commission shall take steps for the conservation of gas from common sources of supply and to see that inequities do not arise so as to be violative of correlative rights in the field. The legislature even went as far as to say that the Commission shall proceed, in such a manner ". . . and as the Commission may find necessary and proper to carry out the spirit and purposes of this act."¹²

For a state agency to crystallize the intentment of the legislature it must take a practical approach in accomplishing the objectives sought to be achieved by legislative enactment. The predominating theme of the theory of gas conservation is the prevention of waste. It is essential that the methods pursued in carrying out the legislative mandate be made effective.

In addition to the term ordinary

meaning of waste as prescribed in the statute, the statute also includes economic waste, underground waste and surface waste. Taking the definition from any standard dictionary leads only to the conclusion, however, that the legislature did not mean anything other than what it said, viz: ordinary meaning. This term stems from the objectives of the act, and with such definition the logical conclusion follows that the legislative intent was to confer upon the Commission the authority and power to resolve and adjust inequities in price in order to retard the wastage of gas by prices that are so low that waste results therefrom. It might be further said in this respect that the original oil and gas conservation statutes were passed in the early thirties. Both statutes have great similarity. In the original oil conservation act in 1931¹³ the legislature made no mention of price fixing, but at the time of the revision in 1939,¹⁴ the legislature specifically said in part: ". . . That nothing contained herein is intended to vest the Commission with authority to fix the price of crude oil . . ." Six years (1945) after the legislature prescribed by the new oil statute (1939) that the Commission is not vested with the authority to fix the price of crude oil it placed no express limitation on the Commission fixing the price of gas at the wellhead. If the legislature had intended not to give the Commission the power as a conservation measure to fix the price of natural gas at the wellhead it would have been just as explicit as it was in the oil statute. This it clearly did not do.

¹² G. S. 1947 Supp. 55-704.

¹³ Laws 1931, chap 226.

¹⁴ G. S. 1947 Supp. 55-604.

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A cheap price placed on any commodity depreciates its usefulness. With the variation and fluctuation in field prices, it is highly conceivable that the prevailing low prices for this irreplaceable natural resource leads to the inescapable conclusion that waste occurs because of the low prices. This we think is contrary to the intent and spirit of conservation laws and practices in this state. It is further the opinion of this Commission that it is a duty required and a trust imposed that where any discriminations in price exist in the field, the Commission should take steps to correct them. The statute is clear that the Commission shall so regulate the taking of natural gas from any and all such common sources of supply within this state as to prevent the inequitable or unfair taking from such common source of supply by any person, firm, or corporation and to prevent unreasonable discrimination in favor of or against any producer in any such common source of supply. The legislature said specifically that the Commission in promulgating rules and regulations should take into consideration certain conditions and then it went one step further and said ". . . and such other factors, conditions, and circumstances as may exist in the common source of supply under consideration at the time as may be pertinent. . . ." ¹⁵ The Commission cannot shut its eyes to the fact that conditions and circumstances in the field at the present time reflect obvious differences in the price of gas at the wellhead whereas the quality of the gas remains virtually constant. The price of the gas when delivered in Omaha, Ne-

braska, Detroit, Michigan, or elsewhere will have approximately the same BTU content, but the gas coming from different wellheads may reflect variances and inequities in price.

The Commission can assume only those powers and exercise such rights as are granted to it by the legislature. Presumption of jurisdiction cannot be sanctioned unless by express authority or where such power is necessarily incidental to the authority imposed by the legislature. It seems clear to us, indeed, that the legislature has used language appropriate to express such intent and has specified with particularity the authority for us to assume jurisdiction in this proceeding. The measure of jurisdiction of the Commission is to be found in a consideration of the power granted it and certainly must be read and construed with relationship to and in conjunction with the purposes of the statute in its entirety. The statute in this instance is solely and exclusively one of gas conservation.

Conclusion

[8] There are two prevalent lines of thought in this country which relate to the jurisdictional confines of Commissions such as ours. The first, which is a minority view, is that jurisdiction cannot be assumed where it has not been specifically granted by the statute, consequently if jurisdiction is to be invoked, it must be made to affirmatively appear on the statute books. The majority rule is that as a Commission possesses all of its authority by delegation from the legislature, through statutory enunciation, jurisdiction then may be reasonably drawn by implication. As between

¹⁵ G. S. 1947 Supp. 55-703.

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these two rules this Commission subscribes to the latter.

[9] Statutes are to be liberally interpreted in the interest of gas conservation. We accept the belief that the legislature implied the competence of jurisdiction to fix the price of natural gas at the wellhead in the interest of the prevention of waste and that there is implied authority in the gas conservation statute in its entirety for us to entertain the amended application. It is our considered judgment, therefore, that the subject matter before us has met the test of the majority rule. The administrative processes of law must be such that a legislatively created body must fulfil the duties imposed by the legislature and carry out the powers conferred upon it.

The transcript of testimony in this proceeding is replete with undisputed evidence of variations in price paid in the field by the several purchasers without particular reference to the BTU content of the gas. The records of this Commission fully support such evidence. There has been no contradiction in this record that wide variations do exist in price being paid, nor can anyone with any knowledge of the field seriously contend that the various prices being paid under present conditions have a pronounced bearing on the delivered price to ultimate consumers. We are of the opinion that this Commission has jurisdiction and authority to establish a minimum fixed price at the wellhead in this field when

fixing a minimum price is necessary or appropriate regulatory means of giving effect to the intent and purpose of the statute relating to the production and conservation of natural gas. We are of the further opinion that the price of gas being paid generally in the field is inadequate and too low.

The evidence offered at the hearings in this proceeding is not sufficient to permit us to determine finally what a reasonable and fair minimum fixed price at the wellhead should be in the field. There is evidence however to convince us that until such final determination such price being paid at the wellhead should not be less than 8 cents per thousand cubic feet. As of this day the Commission on its own motion is instituting by interim order an investigation of prices being paid at the wellhead in the field. This interim order also fixes a minimum price at the wellhead to be paid by pipeline companies and purchasers at 8 cents per thousand cubic feet until further notice. The interim order sets out the method of implementation therein.

We, accordingly, therefore, conclude that the Commission has jurisdiction of the subject matter in this respect. It is our belief that the assumption of jurisdiction here by the Commission will square on all fours with the legislative intent. Appropriate orders in conformance with the views heretofore expressed will be entered in this Docket No. 35,154-C (C-1868).

INDIANA PUBLIC SERVICE COMMISSION

Re Danville Waterworks

No. 20990
January 5, 1949

APPPLICATION for authority to increase municipal plant rates for extraterritorial water service; granted.

Rates, § 429 — Municipal plants — Extraterritorial service.

A municipal water plant was authorized to charge an additional rate for service to consumers living outside the corporate limits, for whom an additional expense was incurred in repairing and maintaining water pipes, since the burden of that expense should be placed on those for whose benefits the mains were installed and used.

APPEARANCES: J. Gordon Gibbs, Attorney at Law, Danville, for petitioner; Robert E. Jones, Assistant Public Counsellor for the public.

By the COMMISSION: On October 14, 1948, the Danville Waterworks, hereinafter referred to as "petitioner," filed a petition with this Commission setting out in substance that it is a public utility engaged in supplying water to consumers in, and immediately outside, the corporate limits of the town of Danville; that the present rate structure is discriminatory, being more favorable to those customers outside the corporate limits of said town; that the same should be equalized by an increase of \$1.50 per quarter per customer over and above the prevailing authorized water rate, and praying by way of relief that the Commission grant such increase in rates to those customers outside of the corporate limits of the town of Danville.

Pursuant thereto and to the publication of legal notice of said hearing in two newspapers of general circulation

in said county more than ten days prior to the date of said hearing as provided by law, together with other notice to interested parties, said matter was heard in the rooms of the Commission, 401 State House, Indianapolis, Indiana, on December 8, 1948, at the hour of 10:30 A.M., with appearances as above noted.

Robert W. Armstrong testified on behalf of the petitioner that he is a member of the town board and superintendent of the waterworks, which occupation he has had for approximately one year; that he is and has been an engineer since 1932, being a graduate of Purdue University; that he has been connected with the water system of the town of Danville since the year 1935.

This witness testified that between fifty and sixty consumers reside outside of the town of Danville and use water furnished by the utility. He testified that the minimum rate for the town is \$3, payable quarterly; that 2 miles of main was built outside the

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town to accommodate consumers residing there and that the people in the town are chargeable with the maintenance of the mains and cost of extensions outside the town. He said that the proposed rate increase would amount to about \$6 per year per customer and would yield approximately \$75 per quarter.

On cross-examination this witness stated that the actual rates outside the corporate limits were the same as those inside; but that by reason of the expense of servicing and repairs to mains those residing outside the town limits were obtaining service, the extra cost of which is in large part borne by those within the city limits: the purpose of this proceeding being to more nearly equalize this cost. He further said that many pipe joints were being replaced and leaks repaired; that no depreciation had been accrued on the line and could not state if in fact the water company has accrued depreciation. He further said that the customers involved knew about the proposed rate

increase and that he had received no protest and had heard none. Larger users consisted of a garage, a food locker, state garage, and the county home, but the others were private residences.

It is apparent that the age of the mains inside and outside the corporate limits of petitioner is such that large maintenance costs are incurred.

The petitioner produced no definite figures as to the cost of maintenance of the plant outside the town but evidence as to the age of the pipe, the repair of leaks which naturally result from age, and long usage probably increase the cost of such repairs and maintenance to such an extent that the present revenues are insufficient to properly maintain the same, and that the burden thereof should be placed upon those for whose benefit the mains were installed and are used.

For the reasons above set out, the Commission is of the opinion and now finds that the petition should be granted and it will be so *ordered*.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



New Kaiser Aluminum Plant To Start Production in June

PRODUCTION will get underway in June at the new Kaiser Aluminum rod, bar, wire, and cable mill at Newark, Ohio, according to D. A. Rhoades, vice president and general manager of The Permanente Metals Corporation.

The first section of the new mill to start operations will be the remelt department where ingot is prepared for the rod mill. Work in this department must necessarily start in advance of rod mill operations in order to build up a supply of billets. Initial shipments of ACSR (aluminum cable steel reinforced) and all aluminum cable will begin in July.

Initial orders will go to REA-financed Coöps, U. S. Bureau of Reclamation, Bonneville Power Administration, other power projects and public and private utilities from coast to coast.

The completed Newark plant will have an annual capacity in excess of 100 million pounds of electrical conductor material. The new mill together with existing plant equipment will give Permanente facilities for the production of a wide range of aluminum wire as well as rod, bar and structural shapes up to a maximum of eight inches in diameter. Although original plans call only for the production of wire and cable, the company expects to manufacture a number of related products within the next year.

Production at the new Kaiser Aluminum plant will climax 18 months of extensive preparation involving the expenditure of approximately 4 million dollars in the design, construction and installation of cable mill equipment.

B & W Tube Company Data on Croloy Steels Ready

THE BABCOCK & WILCOX TUBE COMPANY now has available a convenient reference card on stainless Croloy steels for tubing, giving standard type numbers by which grades are identified, and chemical composition limits and ranges, based on ladle analyses.

The card, TDC-122, is available upon request to the company at Beaver Falls, Pennsylvania.

New Combination Watthour and Thermal KVA Demand Meter

A NEW combination watthour and thermal kva demand meter for use by electric utilities having rate structures requiring the measurement of kva demand has been an-

nounced by General Electric's Meter and Instrument Divisions.

Designated as the Type IHE-1A, the new meter is essentially the same size as a conventional watthour meter; hence it can be installed without increasing the size of the original installation. It is available in the 50-amp, 240-volt, 3-wire, single-phase rating.

The watthour meter is essentially the same as the I-50 meter, which was first announced last May, except that the rotating element is of the conventional ball-bearing type. The thermal demand meter unit consists of the thermal unit, a current transformer, a resistance valve, a potential transformer for exciting the heater of the resistance valve, and the driving mechanism, pointers, and scale.

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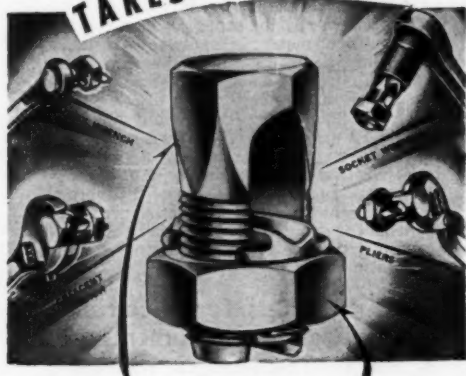
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Copies may be obtained from the American Standards Association, 70 East 45 street, New York 17, New York at \$1.50 per copy.

Trumbull Elec. Mfg. Appoints Manager of Sales

ROBERT C. WILSON has been appointed manager of sales at the Norwood, Ohio, works of the Trumbull Electric Mfg. Company of Plainville, Conn. He will be responsible for the sale of products manufactured at Norwood, which include panelboards, switchboards, and Flex-A-Power distribution systems; and for sales assistance and quotations in the area served by the Norwood plant.

Commercial Electric Cooking Conference Scheduled

A FULL-DAY conference on commercial electric cooking, to be held May 25th at the Madison Hotel, Atlantic City, has been announced by Harry Restofski, chairman of the Edison Electric Institute Commercial Division General Committee.

Sponsored by the Institute's Commercial Cooking Committee, the meeting will take place during the National Restaurant Show, which occurs May 24th-27th. The conference program has scheduled representatives of electric companies and equipment manufacturers, with several restaurant operators also listed.

Okonite Opens New Dallas Office

THE OKONITE COMPANY, manufacturers of insulated wires and cables, has opened a new office in Dallas, Texas, at 1505 Tower Petroleum building with Otis W. Herring as manager. Mr. Herring, formerly in the company's Birmingham office, will be assisted by Sam K. Dick, sales engineer.

Booklet on Selection of A-C Generators

THE Electric Machinery Mfg. Company has issued a new 16-page publication E-M Synchronizer No. 27 which contains valuable information on how to select A-C generators, paralleling A-C generators, boosting capacity to meet electric power demand, and applying "packaged" generators in industry.

Copies may be secured from the manufacturer, Minneapolis 13, Minnesota.

Elliott Issues New Bulletin

A 4-PAGE bulletin (No. PB-5600-1) on Fabric-Steel, high-speed, synchronous motors with direct, belt, or gear drive, has just been released by the Ridgway, Pa., division of Elliott Co. Copies may be obtained on request.

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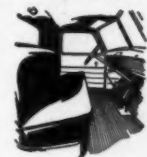
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the same famous GMC valve-in-head "270" power plant that performed so dependably and economically in nearly 600,000 military GMC trucks on battle fronts all over the world.



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eight inches wider and seven inches longer than prewar, all steel-welded with 22 per cent greater vision, seats with double the number of springs, automatic built-in ventilation system, complete insulation and soundproofing.



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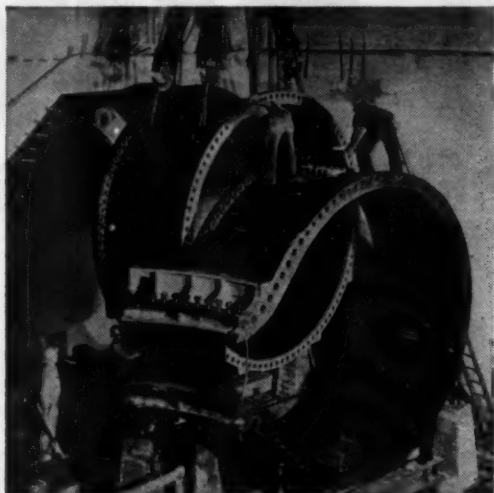
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DURING 1948 the nine generating units in the west power house at Grand Coulee in the state of Washington produced 8,415,000,000 K.W.H.

Each generator was driven by a 150,000 horsepower hydraulic turbine built by Newport News.

Nine similar turbines, but of 165,000 horsepower capacity are now being built for the east power house.



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Keeping stainless steel STAINLESS

... a typical problem in fabricating alloy piping

● Heat a piece of stainless steel pipe to bend it and right away you're up to your ears in metallurgical complications. To begin with, stainless steel isn't just one alloy. There are hundreds of different types of stainless steel, each selected for its resistance to corrosion or its stability at high temperatures. To maintain the metallurgical properties which dictate the choice of a particular alloy steel, you have to know the temperature range within which this steel may suffer excessive metallurgical changes. And you have to have specialized equipment to maintain the precise control necessary to avoid these hazards.

Grinnell pipe fabrication equipment includes specially designed gas-fired radiant heat furnaces for this precisely controlled heat treatment of stainless steels and other alloy steels. Multiple burners are strategically located to distribute temperature uniformly and to prevent harmful flame impingement. Precision instruments regulate temperature and time.

It's an intricate business . . . fabricating alloy steel piping. It's a job for Grinnell prefabricating plants because Grinnell has the equipment and modern methods, the interpretive engineering, the metallurgical research facilities and the skilled personnel.

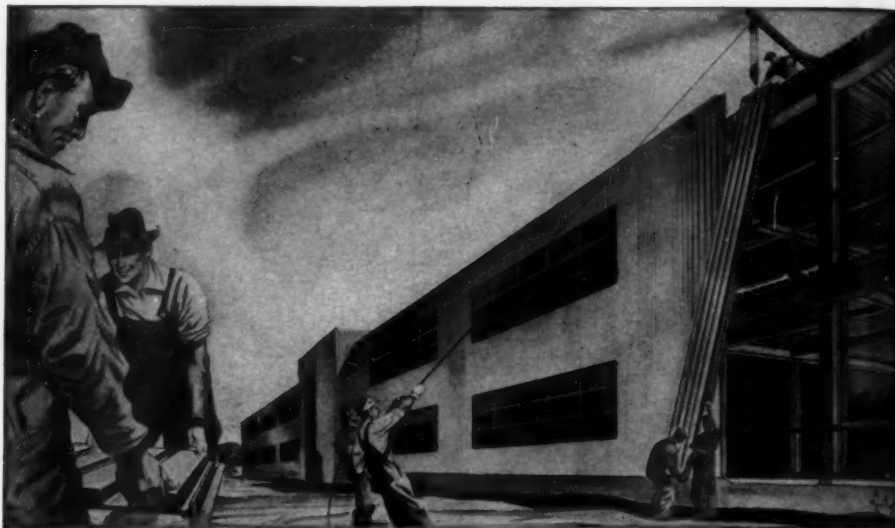


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what we really make is time!



it's faster to hang a wall than to pile it up...

Little blocks, say 2" x 4" x 8", don't pile up very fast.

We hang walls up in sizable panels.

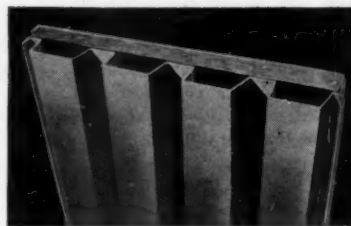
And that is an easy way to understand why Robertson's real product is *time*.

We make walls that are hung in place. We make them complete with insulation when the panels are delivered. We engineer them piece by piece in advance at the factory. We put expert crews on the job to place them.

We make time, now, when time is the essence.

We save days and weeks in finishing a building for use, because years have been put into the development of these unique skills.

Quick is the word we practice.



Q-Panels are fabricated from Galbestos, aluminum, stainless steel, galvanized and black steel in lengths up to 25'.

Q-Panels, 3" in depth with 1 1/4" of incombustible insulation, have a thermal insulation value superior to that of a 12" dry masonry wall with fired plaster interior. A single Q-Panel with an area of 50 sq. ft. can be erected in nine minutes with a crew of only five men, and twenty-five workmen have erected as much as an acre of wall in three days.

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Some interesting facts about bills !



The bills of these birds never change.

The peculiar bird's bill at the left is long and thin. The duck's bill is *always* sort of flat. The pelican's bill *always* has a pouch attached.

Each species retains the same distinctive bill —year after year.

It's a far different story, however, with consumer's bills. As you so well know, some of them change. Some customers' bills may show a marked increase . . . or decrease . . . in kilowatt-hour usage over a short period of time.

A current analysis of your bills, therefore, may disclose certain trends that will be of considerable value to you in planning your rate and promotional programs.

Many such bill analyses are compiled for utilities by the Recording and Statistical Corporation. The tabulations are made on specially designed electro-mechanical equipment. As many as 200,000 bills can be analyzed each day by trained personnel.

FREE booklet for you

We shall be glad to give you the facts about

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Write today for "The One Step Method of Bill Analysis." It may save you time and money in the months to come.



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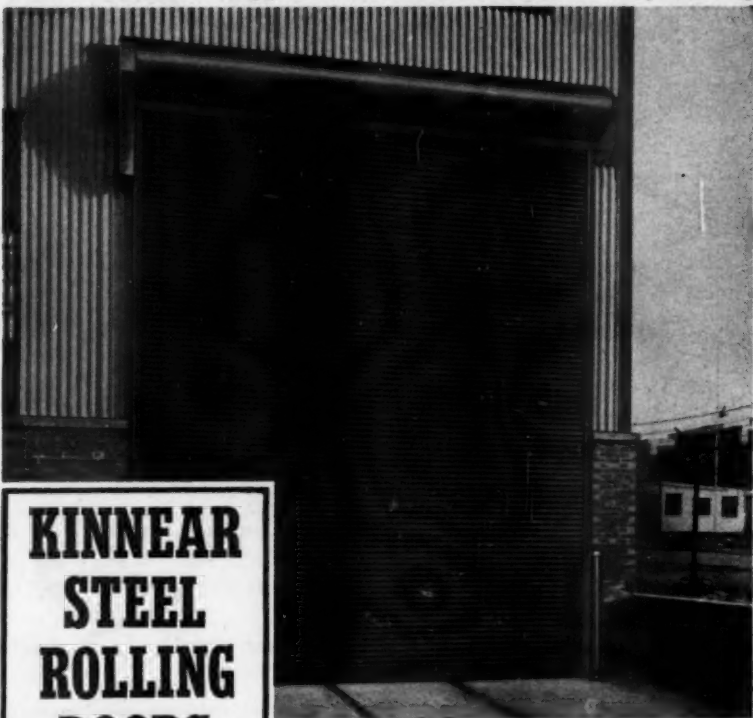
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Smooth Action and Ruggedness that PAY DIVIDENDS in Any Doorway



KINNEAR STEEL ROLLING DOORS

Above installation shows how hood of Kinnear Rolling Door can be mounted on building exterior where desired. May also be concealed above lintel or mounted on inside wall.

You save in at least three ways when you equip service openings with Kinnear Steel Rolling Doors. First, their smooth, easy, coiling upward action gives you full use of all surrounding floor and wall space. Materials of any kind can be stored within an inch or two of the doors, inside or out, without impeding their operation. They open completely out of the way of traffic, coiling compactly out of wind's reach.

Second, Kinnear's neat, strong curtain of interlocking steel slats assures long, de-

pendable, low-maintenance service. Up-keep costs are negligible.

Third, the all-metal construction of Kinnear Rolling Doors gives you extra protection against fire, intruders, wind and storm damage, and other hazards.

Years of actual use in hundreds of buildings prove the economy and high efficiency of Kinnear Rolling Doors. Motor or manual control. Easily installed in old or new buildings. Any size. Write for details today!

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First in heavy-duty truck sales for 17 straight years!



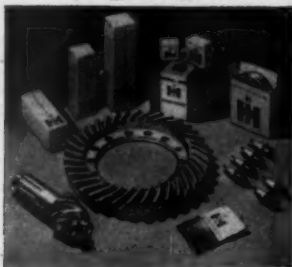
1. Rated first in value by America's most exacting truck buyers!

For 17 straight years, registrations figures for new trucks with GVW ratings over 16,000 lbs. have shown International Trucks in first place. Would Internationals get that vote of confidence unless they were the best value in the heavy-duty truck field?



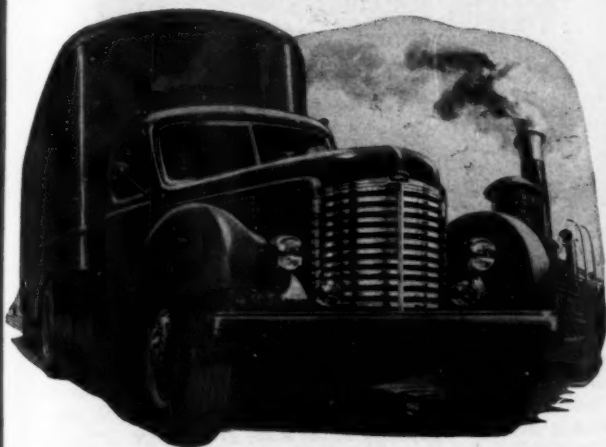
2. Backed up by the nation's largest exclusive truck service organization!

4,700 International Truck Dealers and 170 Company-owned Branches and Service Stations are ready with factory-trained mechanics, precision-engineered parts, and special tools to give International Trucks the diagnosis, service, testing and repairs to correct any trouble.



3. Precision-engineered parts help keep the leader leading!

Replacement parts have a place on the all 'round truck team that keeps Internationals ahead of the field. They're precision-engineered parts, just like the originals. They're made to fit and do a better job and last longer.



5. You don't stay first in sales for 17 straight years unless you're first in value!

No matter what model International Truck you buy—heavy, light or medium-duty—you get the same basic values that have made International Trucks first in the heavy-duty truck field for 17 straight years.

You get a rugged truck, not weakened by compromise with

passenger car engineering.

You get a truck specialized by truck engineers to meet your specific requirements. You have 22 basic models and 1,000 truck combinations to choose from.

See your nearest International Truck Dealer or Branch before you buy any truck.



4. Inexpensive factory-rebuilt exchange units are important, too!

Owners of heavy-duty International Trucks also save money with complete International units, reconditioned and factory-rebuilt. They are priced way below new ones and covered by new unit International warranty.

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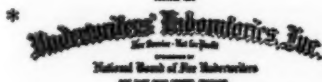
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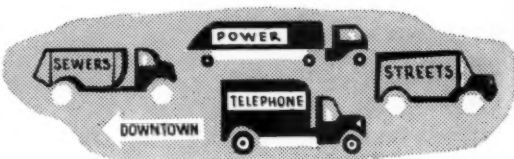


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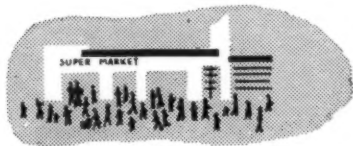
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